

The Willmott Group

Report by Administrators

Pursuant to Section
439A of the
Corporations Act 2001

14 March 2011

Administrators:
Ian M Carson
Craig D Crosbie

WILLMOTT FORESTS LTD
ACN 063 263 650

WILLMOTT FINANCE
PTY LTD
ACN 081 274 811

WILLMOTT FOREST
NOMINEES PTY LTD
ACN 085 588 772

WILLMOTT FORESTS
INVESTMENT
MANAGEMENT PTY LTD
ACN 098 718 837

WILLMOTT FOREST
PRODUCTS PTY LTD
ACN 103 019 094

WILLMOTT ENERGY
PTY LTD
ACN 130 251 759

WILLMOTT NOTES
PTY LTD
ACN 134 963 036

WILLMOTT SUBSCRIBER
PTY LTD
ACN 134 963 027

BIOENERGY
AUSTRALIA PTY LTD
ACN 096 335 901


BIOFOREST LTD
ACN 096 335 876

(ALL ADMINISTRATORS APPOINTED)
(ALL RECEIVERS AND MANAGERS APPOINTED)
(COLLECTIVELY THE WILLMOTT GROUP)

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Abbreviation Listing

Willmott Group refers to the following group of Companies

WFL	Willmott Forests Ltd
WF	Willmott Finance Pty Ltd
WFN	Willmott Forest Nominees Pty Ltd
WFIM	Willmott Forests Investment Management Pty Ltd
WFP	Willmott Forest Products Pty Ltd
WE	Willmott Energy Pty Ltd
WN	Willmott Notes Pty Ltd
WS	Willmott Subscriber Pty Ltd
BEA	BioEnergy Australia Pty Ltd
BIO	BioForest Ltd

All (Receivers and Managers Appointed) (Administrators Appointed)

Other

90 West	90 West Asset Management Ltd
2009 Scheme	Willmott Forests Premium Forestry Blend Project 2009
2010 Scheme	Willmott Forests Premium Forestry Blend Project - 2010 Project
Act	Corporations Act 2001 (Cth)
Administration	Collectively the external administration of each company within the Willmott Group pursuant to Part 5.3A of the Act
Accounts	Willmott Group consolidated financial accounts as prepared by Willmott Group Management
Administrators	Ian Carson and Craig Crosbie as Joint and Several Administrators
AFSL	Australian Financial Securities License
AASB	Australian Accounting Standards Board
APES	Accounting Professional and Ethical Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
Banking Syndicate	Comprises of Commonwealth Bank of Australia Ltd and St George Bank Ltd who are collectively owed circa \$120 Million by the Willmott Group
Bombala Land	Freehold property of approximately 27,861 hectares located in Bombala, NSW and owned by WFL. This land is outside the security provided to the Banking Syndicate and is therefore not under the control of the Receivers and Managers
CBA	Commonwealth Bank of Australia Ltd
COC	Committee of Creditors
Court	Federal Court of Australia
Deed	Access Deed – devised by the Receivers and Managers
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
Dongwha	Dongwha Australia Holdings Pty Ltd with which WFL held a 50% joint venture in a timber processing facility (WTIM) in Bombala, NSW
Environinvest	Environinvest Ltd and subsidiaries (Receivers and Managers Appointed) (In Liquidation)
EOI	Expressions of Interest
ETL	Ethanol Technologies Ltd

FEA	Forest Enterprise Australia Group of Companies (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)
FIDO	Forestry Investors Database Operations
FNSW	Forestry Commission of New South Wales
FV	Fair Value
FY	Financial Year (1 July to 30 June)
GEERS	General Employee Entitlements and Redundancy Scheme
GFC	Global Financial Crisis
Great Southern	Great Southern Limited and subsidiaries (In Liquidation) (Receivers and Managers Appointed)
Grower Investor	Investor in the various Schemes
HVP	Hancock Victorian Plantations Pty Ltd
Indemnity Deeds	Directors Indemnity & Access Deed (for individual Directors of WFL)
IPAA	Insolvency Practitioners Association of Australia
ITAA	Income Tax Assessment Act 1997
Joint Venture	A contractual agreement joining two or more parties for completing a particular business undertaking. All parties agree to share profits and losses
m	Million
M+K Lawyers	Macpherson + Kelly Lawyers
MIS	Managed Investment Scheme
NBV	Net Book Value
NPV	The Net Present Value represents an assessed value of a series of cash flows over time (generally the net of incoming less outgoing) to be received in the future. The future net cash flows or series of cash flows are discounted to represent their current value to account for the time value of money, risk and expected returns
NTA	Net Tangible Assets
PAYG	Pay As You Go
PDS	Product Disclosure Statement
PINES	Perpetual Income Exchangeable Securities
Poyry	Poyry Management Consulting (Australia) Pty Ltd
RATA	Report As To Affairs
RE	Responsible Entity
Receivers and Managers	Messrs Mark Korda, Mark Mentha and Bryan Webster of KordaMentha
Report	The Willmott Group Report by the Administrators in accordance with Section 439A of the Corporations Act 2001 (Cth)
ROT	Retention of Title
Scheme(s)	Registered and Unregistered Managed Investment Schemes of which WFL acts as RE / Manager / Trustee
Second Meeting	Meeting required pursuant to Section 439A of the Act where creditors determine the future of the company concerned
SGB	St. George Bank Ltd
TBD	To Be Determined
Timbercorp	Timbercorp Group of Companies
WAG	Willmott Action Group
WGG	Willmott Growers Group
Woodlot	Grower Investors Interest in their relevant Scheme's plantation issued by the Willmott Group
Woodlot Sales	Upfront application fee paid by Grower Investors
WTIM	Willmott Timbers Pty Ltd – <u>Not</u> in external Administration

1. DISCLAIMER

In reviewing this Report, creditors should note the following:

- the statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. Except where otherwise stated, we reserve the right to alter any conclusions reached on the basis of any changed or additional information which may be provided to us between the date of this report and the date of the Second Meeting;
- neither the Administrators, PPB Advisory, nor any member or employee thereof are responsible in any way whatsoever to any person in respect of any errors in this report arising from incorrect information; and
- in considering the options available to creditors and formulating their recommendation, the Administrators have necessarily made forecasts of asset realisations and total creditors. These forecasts and estimates may change as asset realisations progress and claims are received from creditors. Whilst the forecasts and estimates are the result of the Administrators' best assessment in the circumstances, creditors should note that the outcome for creditors may differ from the information provided in this report.

2. EXECUTIVE SUMMARY

2.1 APPOINTMENTS

Ian Carson and Craig Crosbie were appointed Administrators of the Willmott Group by order of the Federal Court of Australia (the **Court**) on 26 October 2010. This appointment replaced that of Mr Avitus Fernandez of Fernandez Partners who was appointed Administrator on 6 September 2010, pursuant to section 436A of the Corporations Act 2001 (Cth) (**Act**).

Messrs Korda, Mentha and Webster of KordaMentha were appointed Receivers and Managers of the Willmott Group on 6 September 2010 by the Willmott Group's Banking Syndicate, comprised of the Commonwealth Bank of Australia Ltd (**CBA**) and St George Bank Ltd (**SGB**).

The Willmott Group consists of the parent entity, Willmott Forests Ltd (Administrators Appointed) (Receivers and Managers Appointed) (**WFL**) and nine subsidiary companies. Refer to section 5.1 of this Report for the Willmott Group Structure and section 5.2 for particulars on the purpose and activities for each entity in the Willmott Group prior to our appointment.

Due to the interdependent relationship of the entities within the Willmott Group, and the relatively minor role of the subsidiaries in Willmott Group's operations, we have prepared this Report on a consolidated basis. This enables stakeholders to fully appreciate the business, operations, financial affairs and our subsequent investigations of the Willmott Group as a whole. A breakdown of individual circumstances and historical financials for each entity within the Willmott Group are provided in Appendix F.

WFL also acts as Responsible Entity (**RE**) / Manager / Trustee over eight registered and twenty-nine unregistered managed investment schemes (**Schemes**). Of these, the Receivers and Managers continue to control WFL's role as RE / Manager / Trustee over seven of the unregistered Schemes, whilst the Administrators are in control of WFL's role over the remaining thirty. A schedule of the Schemes is included in Appendix E.

This Report has been prepared in accordance with section 439A of the Act and is based on information obtained from the Willmott Group's books and records, financial systems, operational database, representations from the directors and key management staff and from our own enquiries and investigations.

Readers should note that this Report is based upon our preliminary investigations to date. Accordingly, the views formed in this Report are not final and may be subject to change. Any additional material issues which are identified subsequent to this Report may be subject to a further written report and/or tabled at the forthcoming meeting of creditors.

2.2 SECOND MEETING OF CREDITORS

Administrators are required to hold a meeting of creditors within five business days of the statutory convening period ending. The purpose of the said meeting is to decide the future of each individual entity within the Willmott Group by choosing between the following three options:

- the company execute a Deed of Company Arrangement (**DOCA**) (we note that no DOCA has been proposed so that this option is not available for consideration by creditors); or
- the company be wound up; or
- the administration comes to an end (and control of the company reverts to its director(s)).

The concurrent second meeting of creditors (**Second Meeting**) for all entities comprising the Willmott Group is to be held as follows:

Date: Tuesday, 22 March 2011
Registration: Midday AEDST
Meeting time: 2:00pm AEDST
Location: Melbourne Town Hall - Swanston Room
Corner Swanston and Collins Streets
Melbourne VIC 3000

Arrangements have been made for this meeting to be broadcast live via a web link for those creditors who are unable or do not wish to attend. To listen to the Second Meeting via the internet, please follow the link:

<http://www.streamcast.com.au/ppbadvisory/willmott/>

Creditors who are unable to attend in person may submit questions for consideration at the Second Meeting by emailing them to willmott@ppb.com.au by no later than **4:00pm on Friday, 18 March 2011**.

As it is not possible to determine at this stage whether Grower Investors will ultimately be creditors, the Administrators will consider Grower Investors as contingent creditors for the purposes of the meeting, so that Grower Investors can attend and vote.

Only creditors of the Willmott Group are entitled to attend and vote at the Second Meeting. In order to be recognised as a contingent creditor, each Grower Investor must complete an Informal Proof of Debt Form provided as Appendix C and provide adequate particulars of their claim(s) to the Administrators for review and acceptance. Sections 3.7 and 3.8 detail the Administrators' present view on the position of Grower Investors as creditors.

2.3 PROGRESS OF ADMINISTRATION

Following our appointment, we have assumed control of the assets of the Willmott Group not under the jurisdiction of the Receivers and Managers, primarily being the land located in Bombala, NSW (**Bombala Land**). As Administrators we are also in control of WFL in its capacity as RE / Manager / Trustee over thirty of the thirty-seven registered and unregistered Schemes.

The Administrators remain largely without funds and currently have no readily realisable assets available for sale to assist in the funding of the Administration. Notwithstanding this limitation, we have to date:

- attended to statutory reporting requirements;
- launched preliminary statutory and financial investigations, as reported herein;
- liaised with stakeholders including employees, secured creditors, trade creditors and Grower Investors;
- taken control of WFL in its role as RE / Manager / Trustee over the majority of the Schemes;
- engaged an independent expert to report on the viability of all forestry projects, as detailed in section 9.8;
- obtained a valuation of the Bombala Land;
- undertaken an expression of interest campaign, whereby interested parties were invited to assume the role of RE / Manager / Trustee of the Schemes or restructure or recapitalise the Willmott Group (refer to section 2.7 below); and
- negotiated with lessors of property on which Scheme plantations exist.

2.4 ADMINISTRATORS' OVERVIEW

We make the following overview comments in relation to our investigations into the business, affairs and financial circumstances of the Willmott Group.

The Administration of the Willmott Group followed a period of decreasing sales, rising operating costs and industry turmoil (the collapses of Timbercorp and Great Southern for example). New Scheme sales had deteriorated significantly from \$97.3m in FY08 to only \$19.65m in FY10.

In this timeframe the Willmott Group also increased its bank debt and issued new equity in order to raise funds. However, in our opinion, this did not solve the viability issues of the Willmott Group.

Based on our investigations to date, the viability of the business model was questionable. Substantial new sales were required each year to fund operations, including obligations in respect of past Schemes. As outlined above, such sales were not being achieved.

A net asset liability position would likely occur if identified accounting anomalies were adjusted in the financial accounts and the Willmott Group remained trading. Based on our review of the Willmott Group's financial information and books and records these anomalies include:

- Balance Sheet values for certain assets including land, future harvest proceeds and standing timber are likely overstated; and
- liabilities for future forestry maintenance obligations are not recorded.

In addition, it is possible that the auditor for the Willmott Group did not meet required professional independence standards.

The Willmott Group sought to diversify its operations to improve long term cash flow and viability through investment in:

- a joint venture timber mill;
- a "Bioenergy" business;
- a specialist fund manager; and
- timber species other than pine.

However, none of the diversification strategies adopted appear to have reached profitability. Indeed such ventures incurred operating losses, further eroding the Willmott Group's available cash.

The directors began to address the fundamental issues facing the Willmott Group by developing a restructuring plan in March 2010. In our view, the efforts to restructure the Willmott Group should have commenced considerably earlier.

In order to properly appreciate the above overview we encourage interested persons to read this report in full.

2.5 OFFENCE INVESTIGATIONS

We note that the investigations into the financial affairs of the Willmott Group and any conclusions are preliminary and that a liquidator (if appointed) would undertake further detailed investigations before forming any final opinions on these matters.

Our preliminary conclusions in regards to potential offences are set out in section 11 of this Report, as well as the limitations in respect of the investigations undertaken to date. Further investigations are ongoing.

2.6 SCHEME VIABILITY ASSESSMENTS

The Administrators engaged forestry expert, Poyry Management Consulting (Australia) Pty Ltd (**Poyry**), on 7 December 2010 to undertake a technical review and verification of the viability of the Willmott Group's Schemes including assumptions and cash flow forecasts.

Poyry was requested to provide an independent view on the assumptions used in the cash flow models prepared by the Willmott Group for the various forestry projects and to form an opinion on the viability of all Schemes.

On 19 January 2011 the Administrators received the *Viability Analysis of the Willmott Forestry Projects Report* prepared by Poyry, which sets out the estimated net present value (**NPV**) of future plantation revenues, costs including, among others, maintenance, overheads and administration costs for all of the Schemes.

In their report, Poyry determined the following:

- the NPV cost of the funding (i.e. future funding obligations expressed in current dollar terms) required to maintain the Schemes to harvest totalled \$123.2m or \$336.7m in absolute terms;
- there are a number of significant uncertainties relating to the yield forecasts for the plantations and other variables; and
- when testing the viability of the Schemes using a NPV with a discount rate of 15% (which we consider appropriate) 88% of Schemes were found to be unviable.

A summary of the results of the Poyry analysis along with further information regarding this matter is detailed in section 9.8 of this Report.

2.7 EXPRESSIONS OF INTEREST CAMPAIGN

Central to the Administration has been the Willmott Group Expressions of Interest (**EOI**) campaign, in which we sought EOI in:

1. assuming the obligations of RE / Manager / Trustee for any or all of the Schemes;
2. restructuring the Willmott Group's affairs or its business; or
3. recapitalisation of the Willmott Group.

Since first advertising for EOI on 12 November 2010, the Administrators have entered discussions with a number of parties and facilitated the provision of information through an electronic data room.

Binding offers were due to be submitted to the Administrators on 2 February 2011, at which time we received one binding offer from Hancock Victoria Plantations Pty Ltd (**HVP**) and three conditional, indicative, non-binding proposals from interested parties. Offers received are further detailed in section 10.1 of this Report.

The binding offer received from HVP entails collapsing a number of separate Schemes to create one new Scheme which solely operates on HVP owned land. The proposal would be time consuming and complex to implement, and further does not provide for a new RE / Manager / Trustee for existing Schemes that are situated on the HVP Land. The Administrators have since met with representatives from HVP and entered into further negotiations in respect of a revised proposal. On 16 February 2011, HVP presented a binding offer to the Administrators proposing to purchase all of the trees occupying HVP land subject to the full surrender and termination of all associated leases and sub-leases on such land. This matter is further discussed in section 10.1.1 of this Report.

Due to the absence of a reasonable binding proposal to take over WFL's role as RE / Manager / Trustee of the Schemes, the Administrators have established an alternative course of action with respect of the Schemes to achieve the best possible outcome for Grower Investors. The Administrators future strategy for the Schemes is set out in section 10.2.

2.8 OPTIONS AVAILABLE TO CREDITORS

Creditors must decide at the Second Meeting, the future of each individual entity within the Willmott Group by choosing between one of the following three options for each company:

- the company execute a Deed of Company Arrangement (**DOCA**). We note that no DOCA has been proposed so that this option is unavailable for consideration by creditors; or
- the company be wound up; or
- the administration of that company comes to an end (and control of the company reverts to its director(s)).

Should a DOCA be received before the Second Meeting, we will endeavour to provide creditors with the terms and conditions of any such proposal along with our revised recommendation if altered.

We are unable to comment at this stage on the estimated return to creditors should entities within the Willmott Group be placed into liquidation, due to:

- complexities within the Willmott Group's operations,
- commercially sensitive asset values; and
- the uncertainty of the number and amount of creditor claims (due in part to the unknown quantum of Grower Investors as creditors and, if so, for what value).

This is further discussed in section 12 of this Report.

2.9 ADMINISTRATORS' OPINION

It is our recommendation, pursuant to section 439A(4)(b) of the Act, that it is in the best interests of creditors for the Willmott Group to be wound up (i.e. placed into liquidation). Liquidation allows the assets of the Willmott Group (as distinct from the assets of the various Schemes) to be realised and distributed in accordance with the Act. This includes the pursuit of any voidable transactions, including preferential payments and uncommercial transactions (refer to investigations in section 11).

Note: The liquidation of the Willmott Group will not automatically lead to the liquidation of the various registered and unregistered Schemes of which WFL is RE / Manager / Trustee, or likewise not guarantee that the underlying forestry assets will be sold.

3. INTRODUCTION

Ian Carson and Craig Crosbie were appointed Administrators of the Willmott Group by order of the Federal Court of Australia on 26 October 2010. This appointment replaced that of Mr Avitus Fernandez of Fernandez Partners who was appointed Administrator on 6 September 2010 by the Willmott Group directors. A copy of the Court Order in respect of our appointment can be found at: <http://www.ppbadvisory.com/>.

The Willmott Group's Banking Syndicate appointed Mark Korda, Mark Mentha and Bryan Webster of KordaMentha as Receivers and Managers of the Willmott Group on 6 September 2010. Upon their appointment, the Receivers and Managers took control of the Willmott Group's trading activities, all assets covered by the Banking Syndicate's charges and assumed control of WFL in its role as RE / Manager / Trustee over all of the Willmott Schemes.

On 24 September 2010, the Receivers and Managers' appointment was varied to exclude their control over WFL in its role as RE / Manager / Trustee over all but seven unregistered Schemes. The Administrator subsequently took control of WFL in its capacity as RE / Manager / Trustee of the remaining Schemes excluded from the Receivers and Managers varied appointment.

3.1 PURPOSE OF APPOINTMENT AND REPORT

The primary objective for the appointment of Administrators is to maximise the chances of the Willmott Group continuing in existence, or, to seek a better return for creditors and members than would result from an immediate winding up of each entity within that group.

Administrators are required to provide creditors, in the form of this section 439A Report to Creditors (**Report**), with information and recommendations to assist creditors in their decision as to the future of each entity in the Willmott Group. The future of each of these entities is to be voted upon at the Second Meeting, further discussed in section 3.9.

This Report is based upon our preliminary investigations to date. Any additional material issues which are identified subsequent to this Report may be the subject of a further written report and/or tabled at the Second Meeting.

Section 439A of the Act also requires that an administrator provide a statement setting out the administrator's opinion and reasoning as to which course of action is in the best interests of creditors.

Corporations Regulation 5.3A.02 requires an administrator to specify whether there are any transactions that appear to be voidable in respect of money, property or other benefits which may be recoverable by a Liquidator under Part 5.7B of the Act.

The Administrators' recommendations on the above matters have been set out in section 13 of this Report.

Following an application by the Administrators, on 8 February 2011 the Court ordered that this Report be published on both the websites of PPB Advisory (<http://www.ppbadvisory.com/>) and the Administrators' lawyers, Arnold Bloch Leibler (www.abl.com.au) instead of being sent by mail. The Court further ordered that the Administrators notify the creditors and Grower Investors by email, or by a letter sent by post where no email address was known, advising that the Report was available online. Hard copies of the Report will be provided upon request to any creditor or Grower Investor. The Administrators believe that this is in the best interest of creditors, given the considerable printing and postage cost of distributing the Report to the large number of creditors and Grower Investors affected by the Administration of the Willmott Group.

3.2 FIRST MEETING OF CREDITORS

The First Meeting of Creditors of the Willmott Group, convened under section 436E of the Act, was held by the former Administrator, Mr Avitus Fernandez, on 15 September 2010 at which time it was adjourned to 28 September 2010. There was no requirement to re-hold the First Meeting of Creditors following the replacement of the former Administrator.

A copy of the minutes of the First Meeting of Creditors may be obtained from the website of the Australian Securities and Investments Commission (**ASIC**) at <http://www.asic.gov.au/>.

3.3 COMMITTEE OF CREDITORS

At the Willmott Group's First Meeting of Creditors it was resolved that a Committee of Creditors (**COC**) be formed for the following entities:

WFL

Representative name	Representing
Colin Worthy	Himself and all his proxies
Ian Copp	CBA
Ian McKenzie	In his own right
James Simpson	In his own right
Marie Birmingham	Herself and all her proxies
Stephen Ryan	HVP
Paul Challis	In his own right
Paul James	SGB
Phillip Allen	Himself and all his proxies

Willmott Subsidiaries: WF, WFN, WFIM, WFP, WE, WN, WS, BEA, BIO

Representative name	Representing
Colin Worthy	Himself and all his proxies
David Armstrong	Armstrong Partners Pty Ltd
Ian Copp	CBA
Paul James	SGB

We have conducted regular, informal and concurrent meetings with each of the COC to discuss updates on the status of the Administration, the Schemes and all other information relevant to creditors. The COC met on the following dates.

Date of meeting	Agenda Issues discussed
24 November 2010	<ul style="list-style-type: none"> • Implications of the replacement of the former Administrator • Progress of the Administration • Grower Investors' plantation insurance (refer to section 8.3) • Timing and procedures for the EOI campaign (refer to section 10) • Scheme viability analysis as provided by WFL
8 December 2010	<ul style="list-style-type: none"> • Update on the progress of Administration • Grower Investors' plantation insurance • EOI campaign progress • Court Application for extension of convening period for Second Meeting (refer to section 3.5) • Scheme viability analysis and engagement of independent expert (refer to section 9.8)
20 December 2010	<ul style="list-style-type: none"> • Update on the progress of Administration • EOI campaign progress

Date of meeting	Agenda Issues discussed
12 January 2011	<ul style="list-style-type: none"> • Outcome of Court Application by the Administrators • Update on the progress of Administration • Property valuation received • Timing of independent expert report on Scheme viability • EOI campaign progress
25 January 2011	<ul style="list-style-type: none"> • Independent expert report on Scheme viability received • Timing of 439A report to creditors and Second Meeting • Updates regarding the EOI campaign
3 February 2011	<ul style="list-style-type: none"> • Update on Administration • EOI campaign – offers received • Court Application for the extension of convening period for Second Meeting (refer to section 3.5)
10 February 2011	<ul style="list-style-type: none"> • Discussions with lessors, HVP and FNSW • Appointment of independent expert to assess offer from HVP (refer to section 10.1.1) • Court Order for extension of Second Meeting convening period • Administrators' future strategy
23 February 2011	<ul style="list-style-type: none"> • Negotiations with lessors, HVP and FNSW • Independent expert assessing offer from HVP • Administrators' future strategy
10 March 2011	<ul style="list-style-type: none"> • Negotiations with lessors, HVP and FNSW • The Second Meeting of Creditors • Administrators' future strategy in relation to the Schemes

3.4 MEETINGS WITH GROWER REPRESENTATIVES

At regular intervals, the Administrators have met with representatives from both the Willmott Growers Group (**WGG**) and the Willmott Action Group (**WAG**) to provide updates on the progress of the Administration and particular issues relating to Grower Investors. A summary of issues discussed is provided below.

Date of meeting	Agenda Issues discussed
29 October 2010	<ul style="list-style-type: none"> • Implications of the replacement of the former Administrator • Grower Investor concerns • Immediate issues and obligations for WFL as RE / Manager / Trustee of the Schemes • Future actions of the Administrators
8 November 2010	<ul style="list-style-type: none"> • Update on the progress of Administration • EOI campaign progress • Timing of Scheme viability analysis • Update on general issues relevant to Grower Investors
22 November 2010	<ul style="list-style-type: none"> • Update on the progress of Administration • EOI campaign progress • Grower Investors' plantation insurance • Scheme viability analysis as provided by WFL • Update on general issues relevant to Grower Investors
6 December 2010	<ul style="list-style-type: none"> • Update on the progress of Administration • Grower Investors' plantation insurance and specific issues regarding plantation maintenance • EOI campaign progress • Extension of convening period for Second Meeting • Scheme viability analysis and engagement of independent expert
20 December 2010	<ul style="list-style-type: none"> • Update on the progress of Administration

Date of meeting	Agenda Issues discussed
12 January 2011	<ul style="list-style-type: none">• Property valuation received• Timing of independent expert report on Scheme viability
25 January 2011	<ul style="list-style-type: none">• Independent expert report on Scheme viability received• EOI campaign progress

3.5 EXTENSIONS OF CONVENING PERIOD

In accordance with section 439A of the Act, an Administrator is required to hold a second meeting of creditors within twenty-five (25) business days after the commencement of the administration unless this is extended by the Court under section 439A(1) of the Act.

On 26 October 2010, the Court ordered an extension of the convening period for the Second Meeting to 15 December 2010. Subsequently, on 1 December 2010, the Court granted another order extending the convening period for the Second Meeting to 15 February 2011. The Administrators sought this further extension of the convening period due to:

- the complexities of the Willmott Group business and affairs;
- ongoing investigations into the Schemes; and
- desire to conduct an EOI campaign to find a replacement RE / Manager / Trustee or offers for restructuring of the Willmott Group.

On 8 February 2011, a further extension of the convening period to 15 March 2011 was granted by the Court. This extension was required in order for the Administrators to negotiate with lessors (HVP and FNSW) who have Scheme plantations on their land, whilst retaining the legislative protections afforded to companies in administration (specifically section 440C of the Act which provides that the owner or lessor of property used by a company cannot take possession of such property during an administration).

Extending the time frame by which to report to creditors and hold the Second Meeting has enabled us to:

- conduct more comprehensive investigations than would have been otherwise possible, into the financial affairs and statutory obligations of the Willmott Group;
- engage an independent expert to prepare an assessment as to the viability of all registered and unregistered Schemes (detailed in section 9.8)
- obtain valuations for land under the control of the Administrators;
- conduct a comprehensive EOI campaign to find a replacement RE / Manager / Trustee or obtain offers to recapitalise or restructure the Willmott Group; and
- negotiate with lessors of property on which Scheme plantations exist.

3.6 SECOND MEETING OF CREDITORS

Pursuant to section 439A of the Act, the Second Meeting for all Willmott Group entities will be held concurrently on:

Date: Tuesday, 22 March 2011
Registration: Midday AEDST
Meeting time: 2:00pm AEDST
Location: Melbourne Town Hall - Swanston Room
Corner Swanston and Collins Streets
Melbourne VIC 3000

Please note creditors / observers may be excluded from attending the meeting should they arrive after the stipulated commencement time. We encourage creditors to arrive for the meeting as early as possible after registration opens to enable the meeting to commence on time.

Attached to this Report are the following:

- Notice of Meeting (Appendix A);
- Proxy Form (Appendix B); and
- Informal Proof of Debt Form (Appendix C).

Please ensure that your relevant Proxy Form and the Informal Proof of Debt Form are completed and returned to this office by no later than **4:00pm on Friday, 18 March 2011** to enable timely registration.

Arrangements have been made for the concurrent meeting to be broadcast live via a web link for those creditors who are unable or do not wish to attend. Please note that this webcast is not interactive and as such, creditors and observers viewing the webcast shall not be able to vote or participate in the meeting. To listen to the meeting via the internet, please follow the link:

<http://www.streamcast.com.au/ppbadvisory/willmott/>

Creditors unable to attend in person are able to submit questions for consideration at the Second Meeting. Please submit all questions by no later than **4:00pm on Friday, 18 March 2011** by email to willmott@ppb.com.au. Whilst every effort will be made to address questions submitted, the Administrators reserve the right to exclude questions due to time constraints.

3.7 GROWER INVESTORS AS CREDITORS

Grower Investors are not automatically entitled to claim as a creditor of the Willmott Group. Whether a Grower Investor is a creditor is a question which must be determined upon the facts of each case, and with objective regard to the Administrators' current obligations to known creditors of the Willmott Group.

Under the Act, certain obligations and duties are to be performed by the RE / Manager / Trustee for the benefit of Grower Investors. Should the RE / Manager / Trustee breach its statutory duties in respect of a particular Scheme, a Grower Investor may then be entitled to claim as a creditor. In many instances it is too early to establish what, if any, claim individual Grower Investors may have as creditors. This matter remains under review by the Administrators and their legal advisors. Until the review is completed, the Administrators will treat Grower Investors as contingent creditors.

3.8 GROWER INVESTORS VOTING POWERS

The Administrators advise that Grower Investor claims will be considered 'contingent' as at the date of the Second Meeting, meaning that the value of such a claim is yet to be determined. Accordingly, a Grower Investor will be admitted to vote at the Second Meeting of Creditors for a nominal amount of \$1.

In order to be entitled to vote at the Second Meeting, creditors must have completed adequate particulars about their claim on the Informal Proof of Debt Form, provided as Appendix C, before the meeting and submit it to the Administrators by no later than **4:00pm, Friday, 18 March 2011** to then be reviewed for admission.

Grower Investors should note that the admission of creditor claims is a time consuming process, and given the substantial number of Grower Investors involved in the Schemes, all claims should be submitted to the Administrators as early as possible prior to the Second Meeting. If you have already submitted your claim using an Informal Proof of Debt Form there is no need to do so again.

Grower Investors may appoint a proxy to vote on their behalf at the Second Meeting. To do this, the Proxy Form attached to this Report as Appendix B must be completed and returned to the Administrators prior to the due date above. Grower Investors may appoint anyone of their choosing as their proxy, including:

1. a representative of either the WAG or WGG; or
2. the Administrators.

Grower Investors who wish to appoint a representative of either WAG or WGG, should contact the relevant representative group to inform them.

3.9 PURPOSE OF SECOND MEETING

The primary purpose of the Second Meeting is to enable creditors to decide the future of each individual entity within the Willmott Group by choosing between one of three options, being:

1. the company execute a Deed of Company Arrangement (we note that no such proposal has been put forth at this stage, so that this option is unavailable for consideration by creditors); or
2. the company be wound up; or
3. the administration comes to an end (and control of the company reverts to its directors).

We note that the concurrent Second Meeting being held is in relation to the entities within the Willmott Group only. Any decision by creditors to wind up the entities within the Willmott Group will not result in the automatic winding up of the registered and unregistered Schemes.

To assist creditors, investors, employees, and shareholders to understand the Administration process better, the Australian Securities & Investments Commission (**ASIC**) has released a package of insolvency information sheets. These have the endorsement of the Insolvency Practitioners Association of Australia (**IPAA**).

Enclosed at Appendix H for your attention is the ASIC publication 'Insolvency Information for directors, employees, creditors and shareholders', which provides an index of all the information sheets that are available. You can download these Information sheets as PDF files from the ASIC or IPAA websites. The respective websites are:

- www.ipaa.com.au; and
- www.asic.gov.au.

4. INDEPENDENCE, RELATIONSHIPS AND INDEMNITY

In accordance with section 436DA of the Act and the IPAA *Code of Professional Practice*, a Declaration of Independence, Relevant Relationships and Indemnities (**DIRRI**) is provided as Appendix D. Note that the DIRRI was provided to the Federal Court of Australia for consideration prior to the Court ordering the replacement of Mr Fernandez as Administrator.

5. WILLMOTT GROUP BACKGROUND

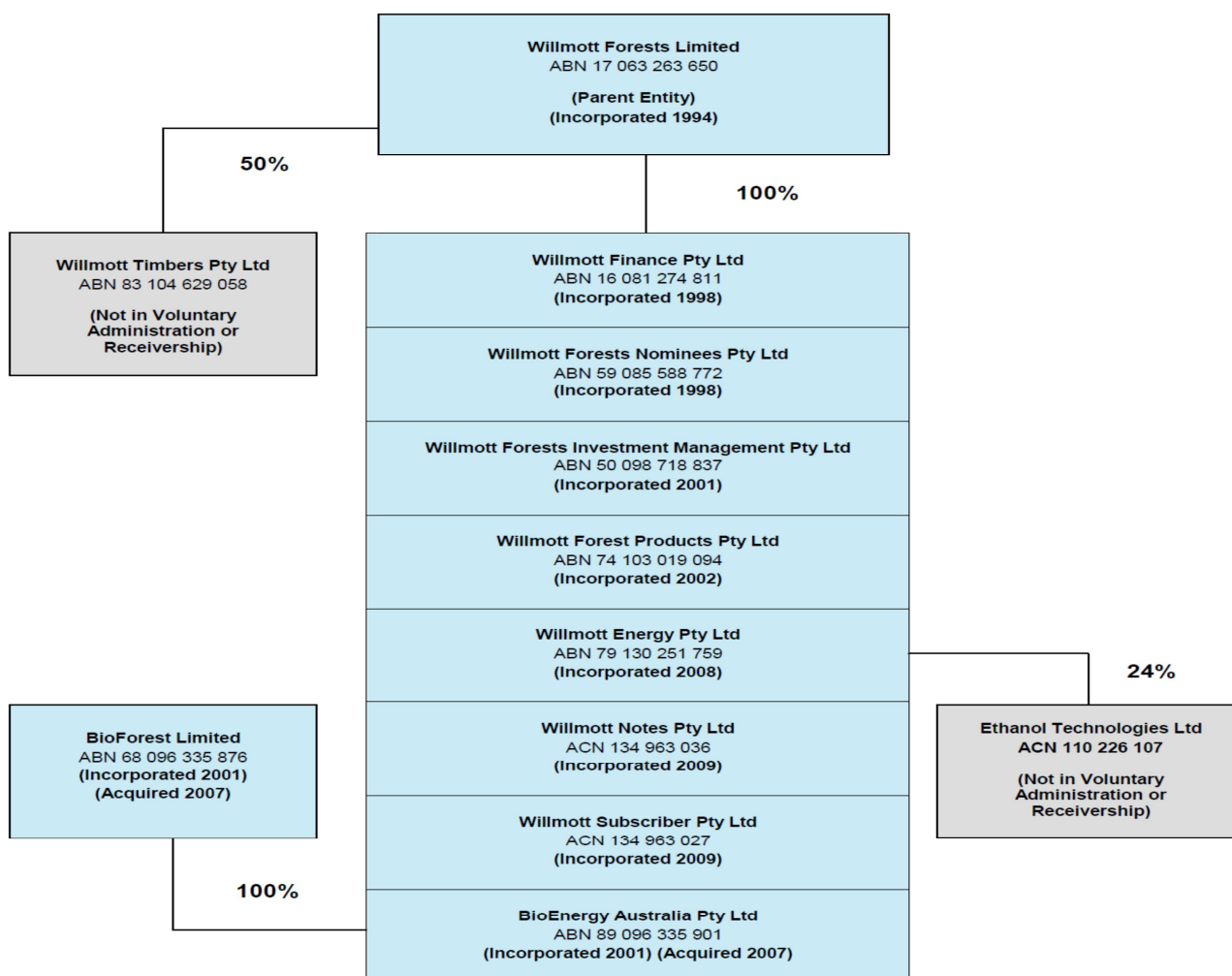
The Willmott Group principally engaged in the acquisition of land for establishing forestry plantations, the maintenance of those plantations, the negotiation of plantation harvesting contracts and the marketing of forestry investment projects to the retail investors.

The Willmott Group commenced forestry business operations under the name of H.J. Selected Properties Pty Ltd in 1979, offering its first unregistered Scheme project in 1983. In 1989 the first 'prescribed interest' project via a registered prospectus was offered to retail investors. WFL was incorporated in 1994 at which time it took over as RE / Manager / Trustee over all existing Schemes created by H.J. Selected Properties Pty Ltd. WFL's subsidiary companies were subsequently incorporated between 1998 and 2009. On 20 December 2000, WFL was listed on the Australian Securities Exchange (**ASX**).

The Willmott Group primarily operated from a head office located at 249 Park Street, South Melbourne, Victoria. Prior to Administration other office locations included, Sydney, Brisbane, Perth and Tumburumba, New South Wales. The Willmott Group expanded to employ over 180 employees by July 2009 and manage over 56,000 hectares of tree plantations with 37 registered and unregistered Schemes. At the time of Administration the Willmott Group employed around 55 people including its directors and officers.

5.1 GROUP STRUCTURE

A diagram of the Willmott Group structure at the date of appointment is provided below.



5.2 GROUP PURPOSE AND ACTIVITIES

The Willmott Group is comprised of WFL as the parent entity and nine subsidiaries. An eleventh company, Willmott Timbers Pty Ltd (**WTIM**), which is not in external administration, was 50% owned by WFL at the date of Administration. This is further discussed below.

This Report primarily focuses on the actions and consolidated financial statements of WFL as the parent and main operational entity of the Willmott Group.

Outlined below are the principal activities and purpose of WFL and its nine subsidiaries. Further statutory information and historical financials for all individual Willmott Group entities are detailed in Appendix F.

Willmott Forests Ltd

WFL was first incorporated in Victoria on 16 March 1994, under the name 'Timber Capital Limited' prior to changing its name on 23 August 1999. WFL as parent and chief trading entity of the Willmott Group engaged in:

- funding the Willmott Group's operations via equity and debt;
- identification and acquisition of land for plantation establishment;
- forestry land site preparation and planting;
- maintenance activities for the various plantations including pine, silky oak and she-oak;
- negotiation and management of plantation harvesting contracts and operations; and
- marketing of forestry investment projects to the public through a number of Schemes.

WFL holds an Australia Financial Services Licence (**AFSL**) and acts as RE / Manager / Trustee over eight registered and twenty-nine unregistered Schemes. WFL was also involved in the funding and management of a loan book generated by financing the sale of forestry rights to Grower Investors.

WFL further governed all operational aspects of the Willmott Group and was the sole employer of all employees.

At the date of appointment, WFL held a 50% share in WTIM which operates a timber processing facility situated in Bombala, NSW. WTIM was operated as a joint venture between WFL and an unrelated entity, Dongwha Australia Holdings Pty Ltd (**Dongwha**). We note that the Receivers and Managers have recently sold WFL's 50% interest in the joint venture, the details of which remain confidential.

Willmott Finance Pty Ltd

Since incorporation in 1998, Willmott Finance Pty Ltd (**WF**) either directly provided loans for woodlots to Grower Investors or acted as an intermediary between Grower Investors and third party financiers.

A schedule of finance providers for the registered and unregistered Schemes is outlined below:

Finance for Grower Investors

Registered Schemes / Projects since 1998	Provider
1989 - 1991 Project - First Prospectus 1989	Nanmar Pty Ltd
1989 - 1991 Project - Second Prospectus 1990 (1991) - Interest	Nanmar Pty Ltd
1989 - 1991 Project - Second Prospectus 1990	Equus Financial Services Limited
1989 - 1991 Project - Third Prospectus 1991	Nanmar Pty Ltd
1995 - 1999 Project - Timber Capital Plantation - 1995	A.S.Calendar Nominees (Vic.) Pty Ltd
1995 - 1999 Project - Timber Capital Plantation - 1996	A.S.Calendar Nominees (Vic.) Pty Ltd
1995 - 1999 Project - Timber Capital Plantation - 1997	A.S.Calendar Nominees (Vic.) Pty Ltd
1996 - 1999 Project - Timber Capital Plantation - 1998	A.S.Calendar Nominees (Vic.) Pty Ltd

Finance for Grower Investors

Registered Schemes / Projects since 1998	Provider
1995 - 1999 Project - Timber Capital Plantation - 1999	Lawn Securities Pty Ltd
2001 Prospectus Year	WFL provided funds to WF
2002 Replacement Prospectus	WFL provided funds to WF
2007 Premium Forestry Blend	MIS Funding No.1 Pty Limited
BioForest Dual Income Project 2006	Momentum Investment Finance Pty Ltd and United Pacific Finance Pty Ltd
BioForest Sustainable Timber and Biofuel Project 2007	Allco Managed Investments Limited as Trustee for Gateway Momentum Funding Trust No 1 & United Pacific Finance Pty Ltd.
Premium Forestry Blend - 2010 Project	WFL provided funds to WF
Premium Timberland Fund No.1	No funding required
Willmott Forests 2000 Project No. 2 Expired as at 30 June 2000	WFL provided funds to WF
Willmott Forests 2000 Project No. 2	WFL provided funds to WF
Willmott Forests 2000 Project	WFL provided funds to WF
Willmott Forests Premium Forestry Blend Project 2009	WF & CBA both provided funds
Willmott Forests Project – 2003 Replacement Prospectus	WFL provided funds to WF
Willmott Forests Project – 2003	WFL provided funds to WF
Willmott Forests Project – 2004	WFL provided funds to WF
Willmott Forests Project – 2006	WFL provided funds to WF
Willmott Forests Project – 2007	MIS Funding No.1 Pty Limited

Finance for Grower Investors

Unregistered Schemes / Projects	Provider
1994 McKenzie & Partners - Forestry Partnership No 2	WFL
1993 McKenzie & Partners - Forestry Partnership No.1	A.S. Calendar Nominees (Vic.) Pty Ltd
1994 Grimsey & Associates Pty Ltd - Forestry Partnership No.1	A.S. Calendar Nominees (Vic.) Pty Ltd
1995 Grimsey & Associates Pty Ltd - Forestry Partnership No.2	A.S. Calendar Nominees (Vic.) Pty Ltd
1996 Grimsey & Associates Pty Ltd - Forestry Partnership No.3	A.S. Calendar Nominees (Vic.) Pty Ltd
2005 BioForest Wholesale Project No. 2 - 2005 Wholesale Forestry Memorandum (BioForest)	WFL provided funds to WF
Professional Investor 2001 Information Memorandum	WFL provided funds to WF
Professional Investor 2002 Information Memorandum	WFL provided funds to WF
Professional Investor 2003 Information Memorandum	WFL provided funds to WF
Professional Investor 2004 Information Memorandum	WFL provided funds to WF
Professional Investor 2005 Information Memorandum	WFL provided funds to WF
Sharp - Reed Plantation Project - 1998 Information Memorandum	A.S. Calendar Nominees (Vic.) Pty Ltd

We note that Jonathan Madgwick and Marcus Derham, directors of WFL, are also both directors of Nanmar Pty Ltd (formerly known as A.S. Calendar Nominees Pty Ltd) and A.S. Calendar Nominees (Vic.) Pty Ltd, two of the major finance providers to Willmott Group Grower Investors. Nanmar Pty Ltd is also WFL's largest shareholder. We also note that Mr Derham has a shareholding in both of these companies.

These arrangements require further investigation.

Willmott Forest Nominees Pty Ltd

Willmott Forest Nominees Pty Ltd (**WFN**) is a trustee entity whose sole purpose was to hold Willmott Group employee share entitlements on trust. It does not engage in any other trading activities and all operational expenses were reimbursed by its parent entity, WFL.

Willmott Forests Investment Management Pty Ltd

Willmott Forests Investment Management Pty Ltd (**WFIM**) was engaged by WFL through a 'Land Sourcing and Forestry Services Agreement' to act as the Manager of the 2010 Scheme, and was to be responsible for all of the technical and operational aspects of this project. WFL, as RE, was to pay WFIM land procurement and establishment fees equal to the forestry application fees paid by Grower Investors. WFIM then in return engaged WFL and third party contractors to carry out all maintenance works, consequently repaying to WFL all Grower Investors application funds. WFIM also holds certain forest property rights on behalf of Grower Investors in relation to Schemes operated on HVP land.

Willmott Forests Products Pty Ltd

Willmott Forest Products Pty Ltd (**WFP**) is a non-trading entity of the Willmott Group. Its sole purpose is to hold title to certain properties located in Bombala, NSW, primarily land and buildings which were formally used as a timber processing facility.

Willmott Energy Pty Ltd

Willmott Energy Pty Ltd (**WE**) was formed in 2008 to diversify revenue streams for the Willmott Group through developing renewable energy opportunities. The business intended to focus on the utilisation of biomass produced from plantation forestry activities, the licensing of ethanol technologies, the production of ethanol and the development of new plantations for carbon sequestration and wood production. WE also own a 24% holding in Ethanol Technologies Ltd (**ETL**).

Willmott Subscriber Pty Ltd

Willmott Subscriber Pty Ltd (**WS**) was involved with the financing activities of the Willmott Group and is the primary borrower of funds under the Banking Syndicate's facility agreement. WN generally then transferred the funds through WFL or other Willmott Group entities.

Willmott Notes Pty Ltd

Willmott Notes Pty Ltd (**WN**) is solely involved with financing activities. WS primarily acted as an intermediary entity between WS and WFL for the transfer of funds borrowed from the Banking Syndicate. We understand borrowed funds were transferred through Willmott Group entities for various legal and tax reasons.

BioEnergy Australia Pty Ltd

BioEnergy Australia Pty Ltd (**BEA**) was acquired by WFL in April 2008 and dealt in the marketing, development and management of a number of forestry plantation assets. Prior to acquisition, BEA previously acted as RE / Manager / Trustee over a number of Schemes. This role was subsequently taken over by WFL following acquisition.

BioForest Ltd

BioForest Ltd (**BIO**) is a wholly owned subsidiary of BEA. It was the RE / Manager / Trustee of the BioForest Dual Income Project 2006 dealing with silky oak and she oak plantations until this role was replaced by WFL following acquisition of BIO. The principal activity of BIO became the marketing, development and management of a limited number of dual species forestry plantations.

5.3 STATUTORY INFORMATION

Statutory information for each Willmott Group entity is included in Appendix F, as follows:

- a listing of directors and officers;
- a listing of shareholders;
- a schedule of registered charges; and
- the results of our statutory investigations conducted to date.

In relation to the parent entity, WFL, past and present directors and officers are also set out below:

Director Name	Role	Date Appointed	Date Resigned
Jonathan David Madgwick	Director	16/03/1994	Current at 06/09/10
	Secretary	18/08/2003	30/04/2009
		24/08/1999	20/02/2001
Hugh Thomas Davies	Director	18/07/2000	Current at 06/09/10
James William Antony Higgins	Director	18/07/2000	Current at 06/09/10
Marcus Derham	Director	1/02/1995	Current at 06/09/10
Raymond Maxwell Smith	Director	28/08/2008	Current at 06/09/10
John Hugh Rutledge	Secretary	30/04/2009	Current at 06/09/10
	Director	24/08/1999	31/10/2003
Ian Richard Bond	Secretary	20/02/2001	18/08/2003
	Director	16/03/1994	24/08/1999
Gregory Robert MacMillan	Secretary	16/03/1994	24/08/1999
	Director	16/03/1994	24/08/1999
David Alan Smith	Director	16/03/1994	24/08/1999

5.4 SHAREHOLDERS

WFL first became a publically listed company on the ASX on 20 December 2000. Ordinary shares totalling 142,878,111 have been issued by WFL, all fully paid with approximately \$95,279,951 of share funds received. The directors called for a public trading halt on shares of WFL on 1 July 2010, which continued through to the appointment of the Receivers and Managers.

WFL has currently issued 176,021, \$100 convertible preference shares with \$17,602,100 of funds fully paid on those shares. The ASIC database discloses WFL's top 20 shareholders to be:

Name	% of Holdings
Nanmar Pty Ltd	18.81
Citicorp Nominees Pty Ltd	12.84
ANZ Nominees Ltd	5.38
HSBC Custody Nominees (Australia) Ltd	3.04
Lutovi Investments Pty Ltd	2.75
RBC Dexia Investor Services Australia Nominees Pty Ltd	1.95
HSBC Custody Nominees (Australia) Ltd	1.91
Chemical Trustee Ltd	1.40
Weresyd Proprietary Ltd	1.33
M F Custodians Ltd	0.94
Mr Andrew Roy Newbery Sisson	0.82
Armada Trading Pty Ltd	0.78
Armada Trading Pty Ltd	0.70
JP Morgan Nominees Australia Ltd	0.67
Napla Pty Ltd	0.66

Name	% of Holdings
C & S Connelly Investments Pty Ltd	0.55
Mr Samuel George Ernest Cash	0.48
Mr William Beckwith and Mrs Julie Margaret Hayden	0.42
Bethal Nominees Pty Ltd	0.42
Kala Superannuation Pty Ltd	0.42
Clodene Pty Ltd	0.42
Mr John Brendan O'Reilly	0.39

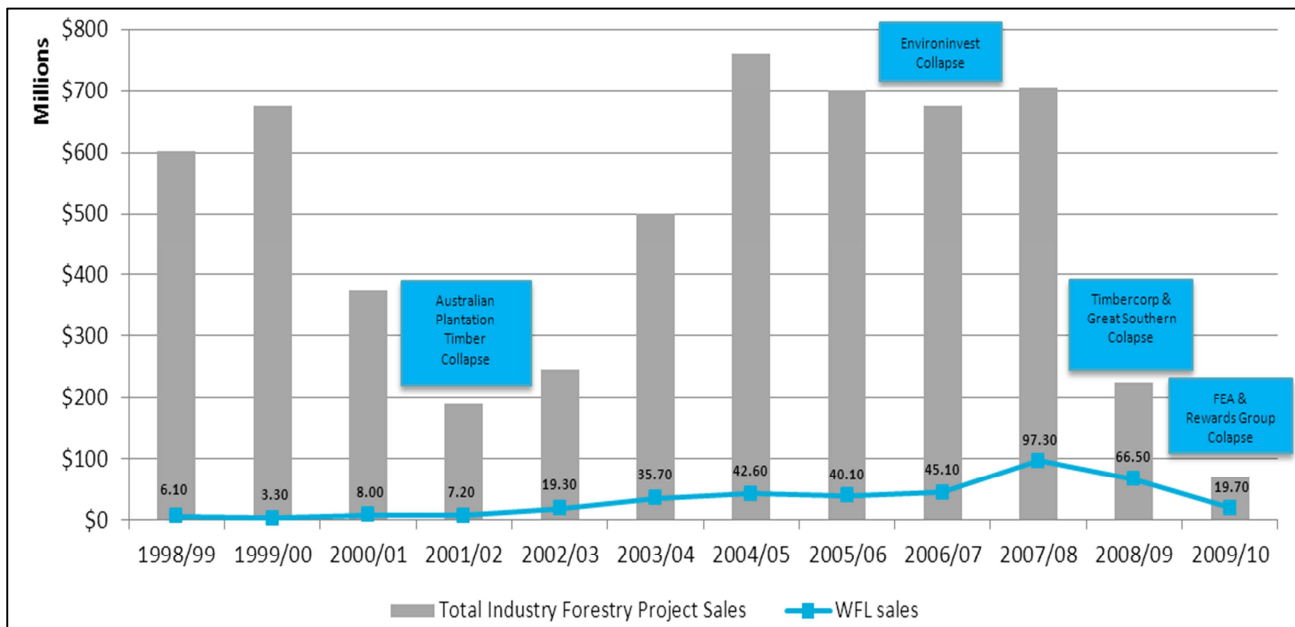
We note that Jonathan Madgwick and Marcus Derham, directors of WFL, are also both directors of WFL's largest shareholder, Nanmar Pty Ltd (formerly known as A.S. Calendar Nominees Pty Ltd). We further note that Mr Derham also has a shareholding in Nanmar Pty Ltd. Further investigation is required in regards to the implications (if any) of these relationships.

5.5 EVENTS TO ADMINISTRATION

5.5.1 MACROECONOMIC EVENTS AND IMPACTS TO MANAGED INVESTMENT SCHEMES

In 2008, the impacts of the Global Financial Crisis (**GFC**) were being felt throughout the world's financial markets resulting in severe tightening of credit availabilities and erosion of investor sentiment. These events had a negative impact on the demand for MIS products, most evidently in FY09 and FY10. The following table highlights:

- WFL's annual sales growth from \$3.3m in FY00 through to its peak sales of \$97.3m in FY08;
- an 80% decline in WFL's Scheme sales from a peak of \$97.3m in FY08 to \$19.7m in FY10; and
- various collapses of major managed investment scheme (**MIS**) providers in recent years.



5.5.2 TAXATION IMPACTS TO MANAGED INVESTMENT SCHEMES

In 1997 the Australian Government launched *Plantations for Australia: The 2020 Vision*, which was a partnership initiative between the Commonwealth, State and Territory Governments and the plantation timber growing and processing industry. The initiative was designed to strengthen the forestry industry through government commitment and significant private sector investment to Australia's plantation resources and industry development.

In order to stimulate private ownership of forestry plantations, the Australian Government further introduced taxation incentives which permitted expenditure on Scheme establishment to be 100% tax deductible under the general business deductions provisions (section 8-1 of the Income Tax Assessment Act 1997 (**ITAA**)). This meant that eligible plantation, establishment and management costs that passed the minimum direct investment test were fully tax deductible.

In response to the large growth in MIS in 1998, the ATO introduced product rulings to allow investors certainty on tax benefits associated with Schemes. However, in 2006 the ATO deemed that amounts paid by investors constituted capital and were therefore not deductible. Prior to 2006 the ATO had allowed up-front tax deductions for investment in Agribusiness MIS. The ATO position was subsequently overturned by the Federal Court in 2008, but highlighted a period of uncertainty with Scheme deductibility.

In 2007, to guarantee upfront tax deductibility specific to forestry Schemes and provide some certainty to investors, Division 394 of the ITAA was introduced with one of the key requirements being that no less than 70% of Scheme funds raised were to be used on direct forestry expenditure including costs of land, planting, maintenance and harvesting the Schemes and excluding management fees, administration and marketing the Scheme. It was also a requirement that trees had to be established within 18 months of entering the Scheme. Accordingly the taxation benefits for Willmott Group Schemes were preserved.

5.5.3 TIMELINE OF SIGNIFICANT EVENTS

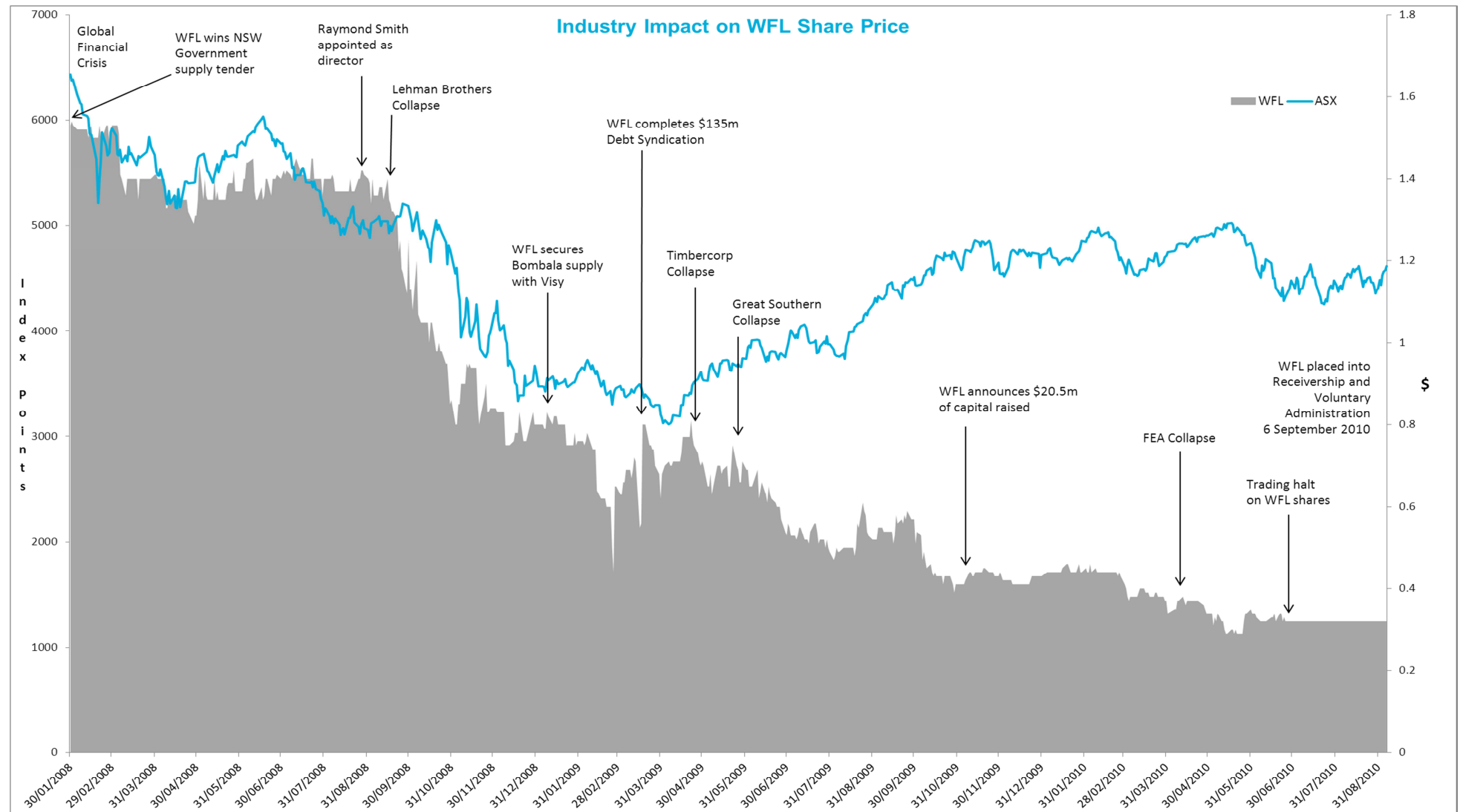
A timeline of recent significant events affecting the Willmott Group and the forestry MIS industry in which the Willmott Group operated is summarised in the below table.

Date	Event – ASX / Market Focused
21-Jun-06	WFL announces part sale of \$66m loan book to CBA.
21-Feb-07	Interim dividend of 5c declared.
16-Mar-07	WFL announces acquisition of 51% stake in ETL for \$2.75m.
22-Aug-07	Final dividend of 5c declared.
23-Oct-07	WFL announces intention to acquire remaining BioEnergy shares by issuing equity
29-Jan-08	WFL wins tender for NSW Government wood supply contract.
26-Feb-08	Interim dividend of 5c declared
19-May-08	WFL announces WTIM Joint Venture with Dongwha.
26-Aug-08	Final dividend of 5c declared.
28-Aug-08	ASX announcement that Raymond Maxwell Smith is appointed as new director.
19-Sep-08	Environinvest Ltd and subsidiaries (Receivers and Managers Appointed) (In Liquidation) (Environinvest) enters external administration.
06-Jan-09	WFL secures supply of Bombala pulpwood with Visy Pulp and Paper.
26-Feb-09	Interim dividend of 5c declared
23-Apr-09	Timbercorp Group of Companies (In Liquidation) (Timbercorp) enters external administration.
16-May-09	Great Southern Limited and subsidiaries (In Liquidation) (Receivers and Managers

Date	Event – ASX / Market Focused
	Appointed) (Great Southern) enters external administration.
20-Aug-09	Final dividend of 3c declared.
2-Nov-09	WFL announced the completion of a \$20.5m capital raising. Proceeds from the Capital raising are started to be used to fund growth.
16-Feb-10	WFL reported a net profit after tax of \$9.57m for the period ended 31 December 2009, an increase of 130% over the prior corresponding period. Interim dividend of 2c declared and dividend of \$3.50 per security on PINES declared.
5-Mar-10	<p>ASX queried WFL after noting an increase in the volume of trading in WFL securities over the period 26 February 2010 to 5 March 2010 and that the share price had declined from \$0.43 at the close of trading on 26 February 2010 to a low of \$0.35 on 5 March 2010.</p> <p>WFL announced that it did not expect its operating result for the full year ending 30 June 2010 would vary from the previous corresponding period by more than 15%. Further, it was not aware of any reasons for the decline in price of its shares.</p>
7-Apr-10	The 2010 Scheme was released to the market.
14-Apr-10	Forest Enterprise Australia Group of Companies (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (FEA) enters external administration.
23-Apr-10	The 2010 Scheme product was awarded a 4 star rating from Independent Research Group AAG.
24-May-10	WFL announces that an external Grower Investor finance facility had been secured for the 2010 Scheme.
26-May-10	WFL announces that it remains on track to deliver a sound financial result and highlighted its response to the ASX query from 5 March 2010 where it advised that it did not expect its operating result for the full year ending 30 June 2010 would vary from the previous corresponding period by more than 15%.
15-Jun-10	WFL announced that its 2010 Scheme was reviewed and endorsed by Van Eyk Research, an investment product research company providing advice to financial advisers.
30-Jun-10	Applications closed for its 2010 Scheme, though the sales totalling \$19.65m did not satisfy the conditions for external finance to fund Grower Investor loans.
1-Jul-10	<p>WFL advised that they had received sales applications in the 2010 Scheme totalling \$19.65m. This was \$46.85m lower than the sales achieved in FY09. WFL advised that the poor sales were due to uncertainty within the broader investment market beyond the control of WFL.</p> <p>WFL was granted a trading halt to assess the impact on its financial position due to significantly reduced sales applications for its 2010 Scheme.</p>
5-Jul-10	<p>WFL was granted a voluntary suspension of all of its securities from official quotation to allow sufficient time to complete a detailed review in light of the lower than expected sales for the 2010 Scheme.</p> <p>The Board and management of WFL announced plans to address its current challenges arising from the lower than expected level of 2010 Scheme sales. These actions include:</p> <ul style="list-style-type: none"> • undertaking a detailed review of WFL to ensure it continues to meet its important strategic goals; • aligning WFL's cost base with the current levels of sales activity; • developing a detailed capital management plan which may include divestment of non-core assets and significant debt reduction; and • seeking financiers' consent to the revised capital management plan.

Date	Event – ASX / Market Focused
	In addition, the announcement advised that a final dividend to shareholders was unlikely to be paid for FY2010 and that it was also unlikely that the semi-annual dividend on Perpetual Income Exchangeable Securities (PINES) due on 30 September 2010 would be paid.
31-Aug-10	WFL provided market update stating that its internal business review is ongoing.
6-Sep-10	The Willmott Group's Banking Syndicate appoints Receivers and Managers. The Willmott Group's directors subsequently appoint Mr Avitus Fernandez as Administrator.
26-Oct-10	The Court appoints Ian Carson and Craig Crosbie of PPB Advisory as Administrators of the Willmott Group to replace Mr Avitus Fernandez.

The impact of various events on WFL's share price is depicted below.



6. WILLMOTT GROUP FINANCIAL BACKGROUND

The discussion and analysis provided below utilises the Willmott Group consolidated financial accounts as prepared by management (**the Accounts**) which represent the Willmott Group as a whole.

Separate financial statements for individual entities in the Willmott Group are provided in Appendix F.

6.1 SUMMARY OF FINANCIAL PERFORMANCE AND POSITION

The Administrators provide the following overview in relation to the Willmott Group's financial performance. A detailed discussion can be found beginning at Section 6.2.

- The Willmott Group recorded the following revenue and profits/(losses) in the last three financial years (FY) and YTD 6 September 2010:

Willmott Group (Extracts from Accounts)

	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Total Revenue	9,917	93,201	121,320	90,305
Profit After Tax	(483)	9,977	14,405	8,947

- The major component of revenue is Woodlot Sales, being the upfront application fee paid by Grower Investors, which declined steadily from FY09 as shown below:

Woodlot Sales

	Cash Sales Achieved Per FY	Woodlot Sales Recognised as Revenue in Accounts Per Accounting Methodology			
	Total Sales (\$'000) (1)	Forecast FY11 (\$'000) (2)	FY10 (Unaudited) (\$'000) (3)	FY09 (Audited) (\$'000) (4)	FY08 (Audited) (\$'000) (5)
FY07 Woodlot Sales	45,101				34,749
FY08 Woodlot Sales	97,340			75,054	22,286
FY09 Woodlot Sales	66,495	10,031	38,579	17,885	
FY10 Woodlot Sales	19,818	12,708	7,110		
Total	228,754	22,739	45,689	92,939	57,035

Note 1: Assumes no new sales following Administration

- Total Sales (column (1)) above shows actual sales achieved whereas data in columns (2) to (5) show how these sales were recorded over a three year recognition period for accounting purposes. For example, Woodlot Sales made in 2009 are recognised as accounting revenue in FY09 to FY11. This is due to Woodlot Sales revenue (and some expenses) being derived based on activity from planting and other assumptions to calculate results rather than purely sales cash received.
- Users seeking to gain a full understanding of the Willmott Group financial performance must review all components of the Accounts i.e. Profit and Loss, Balance Sheet and Statement of Cashflows. This is particularly important due to the nature of accounting for long term to maturity assets such as plantations.

- As can be seen in the above tables, the Willmott Group business was heavily impacted by the volume of new Woodlot Sales each year which fell significantly after 2008. There are a number of potential reasons for the decline in Woodlot Sales, including impacts of the global financial crisis, availability of finance for Grower Investors and the failure of a number of similar schemes in recent years.
- While the Accounts show positive revenue and profits in the last three full FYs, the Willmott Group's cashflows from operating activities have declined since FY08 with operating cashflow deficiencies of \$21m and \$50m in FY09 and FY10 respectively. This is detailed below:

Willmott Group Operating Cashflow

	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Receipts from customers and interest	35,052	87,890	124,936
Operating cash payments	(85,162)	(109,319)	(67,063)
(Deficit)/Surplus	(50,110)	(21,429)	57,873

- Based on the above, the Accounts support the assertion that the Willmott Group was dependent on cashflows from new Woodlot Sales to fund:
 - existing Woodlots;
 - general business expenses; and
 - purchase new land acquisitions for development.

Accordingly when Woodlot Sales declined, financial pressure mounted and cash shortages could be forecast, which led in part, to the external Administration of the Willmott Group.

- The Willmott Group held \$61.4m in cash as at 30 June 2008, which decreased to \$11.9m at 30 June 2010. The erosion of the cash at bank can be attributed to a cumulative operating cash flow deficit of \$71.5m in FY09 and FY10. During this time, as shown in the table above, cash receipts from investors fell significantly and cash payments increased in order to meet Grower Investor obligations.
- The longer term viability of the business model is questionable as the bulk of cash receipts would not be realised until harvest, which in many instances was 25 years from inception of the Scheme.
- The Willmott Group also borrowed funds and raised equity in order to acquire land and meet operating cashflow deficiencies. As a result, debt levels (and associated borrowing costs) increased each year from \$50.5m in FY08 to \$121.7m at 6 September 2010.
- The Willmott Group's consolidated Balance Sheets also indicate a declining current asset position, especially as at FY10 and 6 September 2010 when current liabilities exceeded current assets by \$22m and \$20m respectively. This indicates that the Willmott Group was likely experiencing significant liquidity issues in the last months of trading.
- Based on our analysis to date, the Administrators believe that a number of accounting errors, misstatements or other issues potentially exist with the Willmott Group Accounts, that may have materially overstated the financial performance and asset position. These include:
 - the methodology for valuing the Willmott Group's land holdings is potentially inconsistent with the use of that land;
 - the valuation methodologies of the Willmott Group's 'Standing Timber' and 'Future Harvest Proceed' assets appear to ignore the future costs to be incurred, this also inflates related revenue; and
 - the non-recognition of forestry maintenance obligations as a liability, even where ongoing contracts exist (noting the potential existence of onerous contracts and unviable Schemes).

These items require further investigation to quantify the impacts on the Accounts and ascertain any potential offences and claims.

The Willmott Group's management have advised that the accounting policies and treatments presented in its annual financial accounts were in accordance with the relevant accounting standards, and were further subject to approval by the audit committee and ultimately its external auditor.

6.2 CONSOLIDATED FINANCIAL PERFORMANCE / PROFIT AND LOSS

6.2.1 BACKGROUND

Summarised overleaf are the Willmott Group's audited Profit & Loss Statements (Statement of Financial Performance) as extracted from the Accounts for FY08 to FY10 and the draft unaudited Profit and Loss Statement for the period 1 July 2010 to 6 September 2010.

In the period considered, several changes in business operations have occurred and are reflected in the Accounts, as set out below:

- ETL's financial performance is consolidated in the Accounts until 28 June 2010, when WFL's ownership was diluted to 24%.
- Under the joint venture agreement with Dongwha, the Willmott Group was required to meet WTIM's losses. This requirement ceased on 1 July 2010 and the Willmott Group ceased to consolidate WTIM from that date.
- ETL and WTIM were accounted for using the equity accounting method from 29 June 2010 and 1 July 2010 respectively. The equity accounting method recognises only the Willmott Group's share of the non-controlled subsidiary's profit/loss in its statement of financial performance and adjusts the value of the investment in the subsidiary asset held on the Willmott Group's Balance Sheet by the same profit/loss amount.

Statement of Financial Performance

	Refer Section	YTD to 6-Sep-10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Revenue from ordinary activities	6.2.2	9,848	92,786	121,239	90,819
Changes in inventories of finished goods and WIP		69	415	81	(514)
Total Revenue		9,917	93,201	121,320	90,305
Expenses:					
Sawmill materials and consumables	6.2.3	-	(9,664)	(9,996)	(8,840)
Personnel expenses	6.2.4	(1,632)	(15,430)	(18,114)	(14,335)
Depreciation and amortisation		(73)	(2,192)	(1,360)	(1,750)
Borrowing costs	6.2.5	(1,485)	(8,208)	(6,099)	(4,585)
PINES dividends	6.2.6	-	(1,312)	(2,800)	(2,800)
Woodlot sales marketing expenses	6.2.7	(457)	(5,079)	(10,870)	(8,819)
Woodlot sales external brokerage expenses	6.2.8	(1,147)	(2,661)	(4,438)	(3,392)
Forestry management expenses	6.2.9	(3,319)	(6,772)	(34,461)	(21,066)
Fair value loss on financial instruments	6.2.10	-	741	(1,311)	-
Impairment of land and buildings	6.2.11	-	(3,937)	-	-
Other expenses from ordinary activities	6.2.12	(2,287)	(14,726)	(9,924)	(6,995)
Total Expenses		(10,400)	(69,240)	(99,373)	(72,582)
Profit before income tax expense		(483)	23,961	21,947	17,723
Income tax (expense)/revenue		-	(13,984)	(7,542)	(5,716)
Profit from continuing operations		(483)	9,977	14,405	12,007
Discontinued operations					
Loss from discontinued operations, net of income tax		-	-	-	(3,060)
Profit for the period		(483)	9,977	14,405	8,947
Profit attributable to:					
Non-controlling interest profit (loss)		-	17	(330)	694
Profit attributable to members of the Parent Entity		(483)	9,960	14,735	8,253
Total		(483)	9,977	14,405	8,947

Further breakdown of key revenue and expense lines is provided and discussed below.

6.2.2 REVENUE FROM ORDINARY ACTIVITIES

Revenue from ordinary activities

	Notes	YTD to 6-Sep-10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Woodlot Sales:					
FY07					34,749
FY08				75,054	22,286
FY09		1,980	38,579	17,885	
FY10		6,374	7,110		
Total Woodlot Sales Revenue	a)	8,354	45,689	92,939	57,035
Percentage (%) of Total Revenue		84%	49%	76%	62%
Other Revenue:					
Plantation management and leasing	b)	638	10,881	7,051	7,319
Plantation management and leasing	b)	32	304	295	422
Standing timber	c)	-	977	509	1,199
Plantation Harvesting		29	124	312	150
Timber Processing	d)	-	16,241	16,675	17,568
Bank Interest		-	858	1,036	1,087
Interest received from Growers	e)	395	1,838	776	1,972
PINES (conversion benefit)	f)	-	4,476	-	-
PINES (revaluation benefit)	f)	-	9,134	-	-
Other	g)	400	2,264	1,646	4,067
Total		9,848	92,786	121,239	90,819

Notes

a) Woodlot Sales Revenue

Woodlot Sales revenue represents the initial upfront application fee paid by a Grower Investor and was a key source of the Willmott Group's income.

Woodlot Sales are recognised for accounting purposes over two to three years to match to the timing of plantation establishment activity incurred in earning that revenue. The recognition calculation is based on detailed activity schedules.

Woodlot Sales revenue varied considerably as shown below:

Woodlot Sales

	Cash Sales Achieved Per FY	Woodlot Sales Recognised as Revenue in Accounts Per Accounting Methodology			
	Total Sales (\$'000) (1)	Forecast FY11 (\$'000) ¹ (2)	FY10 (Unaudited) (\$'000) (3)	FY09 (Audited) (\$'000) (4)	FY08 (Audited) (\$'000) (5)
FY07 Woodlot Sales	45,101				34,749
FY08 Woodlot Sales	97,340			75,054	22,286
FY09 Woodlot Sales	66,495	10,031	38,579	17,885	
FY10 Woodlot Sales	19,818	12,708	7,110		
Total	228,754	22,739	45,689	92,939	57,035

Note 1: Assumes no new sales following Administration

As shown in the above table, Woodlot Sales grew to FY08 and dropped significantly in each of FY09 and FY10. This is reflected in the accounting sales revenue, however the decrease is not as prominent due to the revenue recognition methodology where sales revenue is generally recognised over the three years following the actual sale. The sale is however fully received in cash and this is reflected in the cash flows of the Willmott Group. Refer to section 6.4 for further information on cash receipts.

Numerous factors could have contributed to reducing sales volumes in recent years including at least:

- general economic conditions since the global financial crisis;
- the external administrations of other MIS promoters;
- availability of Grower Investor finance for purchase of Woodlots;
- reduced support of dealer groups who sold the Woodlot investments;
- competition in the market place; and
- changes to industry regulation including taxation.

b) Revenue from plantation management and leasing

The Willmott Group is entitled to future harvest proceeds which are payable upon final clear-fell harvesting of the plantation trees at the conclusion of a Scheme. The revenue recognised each year in the financial statements represents the portion of the RE / Manager / Trustee's management and leasing fees earned in the year concerned. As this amount is not received until Woodlots are harvested the amount is recorded in the Balance Sheet item 'Trade Receivables - Future Harvest Proceeds (Deferred Leasing and Maintenance Revenue)'.

This revenue category also reflects any quarterly lease and maintenance obligations paid by Grower Investors for certain Schemes, and is actual cash received.

Further discussion in relation to this revenue item is included in section 6.3.8(c).

c) Standing Timber Revenue

Standing timber revenue (defined in section 6.3.10) is calculated as the increment in the fair value of plantation trees as they mature. It is not received as cash until plantation trees are realised on sale. The valuation of Standing Timber is discussed further at section 6.3.7.

d) Timber Processing Revenue

Timber Processing revenue consists entirely of WTIM's revenue from the sale of processed timber products. As this revenue item is from a consolidated entity, the revenue is not received as cash, however, if dividends are declared, the Willmott Group would be entitled to receive such dividends in accordance with its shareholding.

WFL was a 50% Joint Venture partner in WTIM and until 30 June 2010 it was consolidated in WFL's Accounts. From 1 July 2010 WTIM was accounted for using the equity method and therefore its revenue and expenses were not included in the draft consolidated management Accounts for the period 1 July 2010 to 6 September 2010.

e) Interest

Interest was received or receivable on the Willmott Group's loans to Grower Investors. Grower Investor loans are further discussed in sections 6.3.2 and 6.3.8.

f) PINES (conversion benefit and revaluation benefit)

Background to PINES:

PINES (Perpetual Income Exchangeable Securities, ASX Code: WFLPA) are preference shares which were issued by WFL in 2004. WFL issued PINES to investors in order to raise funds. Initially 400,000 PINES were issued at \$100 per security. This raised \$40m (before costs) which was predominantly used to fund the acquisition of plantation land required to meet growth in Woodlot Sales. The PINES carry a coupon (or interest cost) of 7% payable by WFL, reflected in the Willmott Group's expenses as discussed below.

PINES carry a number of terms and conditions which were set out in the associated prospectus. This included the right for WFL to convert certain numbers of PINES to ordinary shares at certain reset dates. Such conversion gives rise to accounting benefits as the PINES change from interest bearing liabilities to equity, reducing interest expense for WFL and removing any requirement to repay the face value of the PINES in the future.

Based on the FY10 Accounts, 15% of total revenue from ordinary activities related to gains on the conversion and revaluation of PINES. This is a significant amount and is effectively, due to its nature, a non cash item.

Conversion Benefit:

The conversion benefit is a calculation of the benefit WFL received, being essentially the difference between the PINES liability removed and the value of the equities issued. In the period this equated to \$4.476m.

Revaluation Benefit:

The Accounts for the year ended 30 June 2008 record PINES as a liability with a value independent of WFL's share price (i.e. as a debt owed by WFL). This accounting treatment was potentially adopted on the presumption that WFL's share price would consistently trade above the level where PINES could be converted to ordinary shares at a cost to WFL of less than their \$100 face value ("conversion threshold"). During FY10, the share price fell below the conversion threshold and WFL sought to reassess the nature of the PINES and their related liability.

A paper prepared in anticipation of the half year Accounts to 31 December 2009 and FY10 sought to change the accounting treatment to a liability with a value that is dependent on WFL's share price or a derivative. This change effectively meant that the instrument would be recognised as a financial liability at fair value through the profit and loss (i.e. the PINES liability in the Balance Sheet would decrease if WFL's share price fell and vice versa, with the change in value recognised as either income or an expense in the Profit and Loss). This gave rise to the \$9.1m revaluation benefit as the PINES were revalued in line with WFL's share price in FY10.

If the reclassification of PINES, as discussed above, is accepted, it is arguable that WFL's financial statements should be accounted for in accordance with *AASB 108 Policies, Changes in Accounting Estimates and Errors*. This would require an adjustment to be made of the prior period Accounts from at least FY09 (retrospective restatement).

Whilst our preliminary analysis suggests the revised treatment is correct, it is likely that a retrospective restatement of the PINES reclassification would be required. A restatement of this error would have had the following impact on the Willmott Group's financial statements:

- No material impact on the FY08 comparative disclosure;
- Increased FY09 Willmott Group profit before tax by \$3.35m and decreased the PINES liability by the same amount; and
- Decreased the draft unaudited FY10 "conversion benefit" revenue item from \$4.5m to \$2.6m and the "PINES revaluation benefit" revenue item from \$9.1m to \$7.65m which would have reduced both revenue and profit before tax for FY10 by \$3.35m.

The \$3.35m reduction to profit in FY10 is, on its own, not necessarily material to the Willmott Group profit before tax of \$23.9m.

g) Other Revenue (cash)

Other revenue includes Sundry Income from WFL and its subsidiaries, incremental increases in investment values (write ups), agistment income, rental income and gains on asset sales. A further breakdown of this revenue is detailed in the table below:

Other Revenue

	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Sundry Income - WFL	517	511	1,756
Sundry Income – WFP	-	-	80
Sundry Income - WTIM	-	-	489
Sundry Income – Willmott Insurance	-	46	18
Sundry Income – ETL	-	117	-
Sundry Income – BIO	-	25	32
Sundry Income – BEA	-	34	-
Woodlot Sales – BIO 2006 Sales	-	-	601
Management fee	97	-	-
Investment Write-up	357	-	-
Rental Income	288	183	250
Agistment Income	531	302	241
Gain on Asset Sale	474	428	600
Total	2,264	1,646	4,067

Summary of Cash and Accounting Revenue

As detailed above, a significant portion of the Willmott Group's revenues are not received as cash in the same financial year in which they are accounted for. The table below shows the sub totalled cash received from operating activities compared to accounting revenue recognised in the relevant financial years. While accounting standards specify the calculation of accounting revenue the differences are noteworthy to users of the Willmott Group's Accounts. Cash flow information however is provided in the Accounts and is discussed in section 6.4.

Summary of Cash compared to Accounting Revenue

	Notes	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Cash	a)	35,052	87,890	124,935
Accounting Revenue	b)	93,201	121,320	90,305
Cash as a % of Accounting Revenue		37.61%	72.44%	138.35%

Notes

- a) Cash represents the Receipts from customers and Interest received as outlined in the Statement of Cashflows.
- b) Accounting Revenue represents the Total Revenue from the Statement of Financial Performance.

6.2.3 SAWMILL MATERIALS AND CONSUMABLES

Sawmill materials and consumables represent 100% of WTIM's cost of goods sold.

We are advised that WTIM made net losses which were met partially by the Willmott Group. Accordingly, until 30 June 2010, such losses were consolidated into the Willmott Group Accounts. Our investigations into this matter are ongoing.

6.2.4 PERSONNEL EXPENSES

Personnel expenses are detailed in the table below.

Personnel expenses

	Notes	6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Wages and salaries	a)	1,554	12,313	13,806	10,617
Sales team incentives		-	-	1,916	751
Other associated personnel expenses		259	2,812	1,942	2,498
Increase/(decrease) in annual leave liability		(80)	37	111	36
Increase/(decrease) in long service leave liability		(101)	182	263	311
Equity settled transactions	b)	-	86	76	122
Total		1,632	15,430	18,114	14,335

Notes

- a) Wages and salaries were materially higher in FY09 and FY10 due to higher employee/contractor numbers required to deal with increased activity following peak 2008 Scheme sales.
- b) Equity settled transactions represent the cost of ordinary shares issued under WFL's Employee Share Plan.

6.2.5 BORROWING COSTS

Borrowing costs include interest paid on leases, banking facilities and fees as outlined in the table below.

Borrowing Costs

	Note	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Bank Interest	a)	1,453	7,496	4,813	3,661
Lease and hire purchase		(5)*	290	191	270
Other		35	422	1,095	654
Total		1,485	8,208	6,099	4,585

*relates to a prior year correction

Note

- a) Bank interest paid has increased yearly which is consistent with the Willmott Group's increased debt funding. This is further discussed in section 6.3.13.

6.2.6 PINES DIVIDENDS

This represents dividends paid or declared on the PINES at the prevailing rate (see section 6.2.2 for background).

6.2.7 WOODLOT SALES MARKETING EXPENSES

This represents the costs associated with marketing the Schemes, sales and marketing department costs, marketing allowance paid to financial advisors, Product Disclosure Statement (**PDS**) development costs, printing costs, and external consultant costs. As a cost of generating sales, these amounts were expensed in-line with the recognition of Woodlot Sales revenue.

6.2.8 WOODLOT SALES EXTERNAL BROKERAGE EXPENSES

This represents upfront and trailing commissions paid to financial advisors for Scheme sales made. As a cost of generating sales, these amounts were expensed in-line with the recognition of Woodlot Sales revenue.

Our preliminary review of commissions paid to financial advisors indicates that these were broadly in line with industry practice.

6.2.9 FORESTRY MANAGEMENT EXPENSES

Forestry Management expenses represent the establishment and maintenance of forestry plantations such as plantation preparation, planting, fertilising, weed and pest control and other costs. These costs are expensed as incurred.

Forestry Management

	Notes	6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Establishment	a)	2,328	8,032	15,994	12,506
Maintenance	b)	795	9,416	2,329	3,681
Other	c)	196	1,686	2,138	1,279
Warranty provision	d)	-	(12,362)	14,000	3,600
Total		3,319	6,772	34,461	21,066

Notes

- a) Establishment costs include costs in the preparation of Woodlots up until seedlings are planted. The significant increase in FY09 relates to the establishment of plantations following peak sales from the 2008 Scheme. As mentioned above, pursuant to Willmott Group accounting policies this gave rise to the greater revenue recognition in 2009.
- b) Maintenance costs include costs of maintaining seedlings after establishment. These costs include weed and pest control, fertilisation etc. The significant increase in FY10 relates to the maintenance of plantations from the 2008 Scheme
- c) Other forestry management expenses are those not directly related to plantations, including forestry department overheads.
- d) The Warranty provision reversal relates to a guarantee by the Scheme Manager which provides that if, within two years of planting, trees are materially damaged, the Manager will, at its own expense, replace the damaged or destroyed trees.

In FY09 management have advised that the provision was reported as follows:

FY09 Warranty Provision

	(\$'000)
Provision for Warranty	10,208
Other Creditors & Accruals – Provision for Maintenance/ Warranty	3,792
Total	14,000

Ultimately the full provision was not required due to good seedling survival rates and was reversed in FY10.

We note that adjusting out this reversal would give expenses of \$19.1m in FY10 and a loss would have been recorded, all other items constant. We will continue to investigate this matter.

6.2.10 FAIR VALUE (LOSS)/GAIN ON FINANCIAL INSTRUMENTS

The Willmott Group sought to manage the risk of adverse interest rate movements on its borrowings by entering into Interest Rate Swaps (i.e. swap a variable rate interest expense for a fixed rate interest expense). To the extent that the hedge was effective / ineffective, the fair value movement was recognised as a gain (loss) in the Willmott Group's Profit and Loss Statement.

6.2.11 IMPAIRMENT OF LAND AND BUILDINGS

This represents the reduction in value of land and buildings required to equate book value and market value. Refer to section 6.3.9 for further information on the valuation of freehold land.

6.2.12 OTHER EXPENSES FROM ORDINARY ACTIVITIES

Other expenses from ordinary activities include expenses such as compliance and legal costs, rent, consultants, insurance, IT, heat, light and power, entertainment and motor vehicle expenses which have not been specifically allocated to sales and marketing or forestry departments.

6.3 CONSOLIDATED FINANCIAL POSITION / BALANCE SHEET

Detailed below is a summary of the Willmott Group's consolidated financial position (Balance Sheet) as at 30 June 2008 and 2009 (audited), 30 June 2010 (unaudited) and 6 September 2010 (draft unaudited management accounts).

The consolidated financial position as at 30 June 2010 does not include assets and liabilities of ETL. The consolidated financial position as at 6 September 2010 does not include the assets and liabilities of either ETL or WTIM. These entities are partly owned subsidiaries and were equity accounted from 29 June 2010 and 1 July 2010 respectively.

Financial Position - Balance Sheet

	Section Reference	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Current assets					
Cash and cash equivalents	6.3.1	7,867	11,970	23,198	61,399
Trade and other receivables	6.3.2	10,925	14,815	36,739	37,175
Inventories	6.3.3	1,581	3,847	3,766	2,530
Deferred tax asset	6.3.4	7,866	7,835	20,546	25,184
Prepayments	6.3.5	6,212	7,841	16,586	14,709
Assets held for sale	6.3.6	8,581	8,581	8,607	-
Financial assets	6.3.7	315	2,415	-	-
Total current assets		43,347	57,304	109,442	140,997
Non-current assets					
Trade receivables	6.3.8	91,784	93,695	75,501	66,609
Financial assets	6.3.7	7,587	2,454	2,057	2,000
Property, plant and equipment	6.3.9	135,165	140,400	134,051	111,660
Standing timber	6.3.10	12,857	12,248	10,596	9,312
Intangibles	6.3.11	-	-	1,079	1,133
Deferred tax assets	6.3.4	2,701	2,752	482	423
Prepayments	6.3.5	33,911	34,073	34,497	19,533
Total non-current assets		284,005	285,622	258,263	210,670
Total assets		327,352	342,926	367,705	351,667
Current liabilities					
Accounts payable	6.3.12	10,444	17,198	32,663	35,961
Borrowings	6.3.13	33,416	33,838	1,147	1,604
Deferred tax liabilities		1,416	1,418	2,419	3,812
Derivative liabilities		446	487	762	-
Provisions	6.3.14	17,544	26,747	63,230	99,162
Total current liabilities		63,266	79,688	100,221	140,539
Non-current liabilities					
Borrowings	6.3.13	87,306	81,171	89,591	48,973
Preference shares	6.3.15	8,468	8,468	40,000	40,000
Deferred tax liabilities		9,170	9,170	7,289	2,874
Derivative liabilities		739	739	338	-
Provisions	6.3.14	12,527	12,973	14,745	15,627
Total non-current liabilities		118,210	112,521	151,963	107,474
Total liabilities		181,476	192,209	252,184	248,013
Net assets		145,876	150,717	115,521	103,654
Equity					
Contributed equity	6.3.16	93,558	93,558	55,691	55,504
Asset revaluation		-	-	384	383
Retained earnings	6.3.17	52,353	52,391	52,181	40,426
Hedge reserve		(656)	(656)	211	-
Non-controlling interest		621	5,424	7,054	7,341
Total equity		145,876	150,717	115,521	103,654

The Administrators make the following specific comments in relation to the Willmott Group's consolidated Balance Sheet.

6.3.1 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents are detailed below.

Cash and Cash Equivalents

	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Cash on Hand	-	1	1	0
Cash at Bank	6,784	9,360	17,144	55,331
Short Term Bank Deposit	1,083	2,609	6,053	6,068
Total	7,867	11,970	23,198	61,399

The Willmott Group's cash balance declined significantly from \$61.4m in FY08 to \$7.8m as at 6 September 2010. This correlates with the decline in Woodlot Sales. Further cashflow analysis is contained in section 6.4.

The Receivers and Managers assumed control of the Willmott Group bank accounts following their appointment on 6 September 2010. Willmott Group management have advised that the total balance of the 24 bank accounts as at 6 September 2010 was approximately \$7.45m.

We note that this amount is inconsistent with the Willmott Group's Draft Balance Sheet as at 6 September 2010. Our investigations to date indicate that the difference is a result of the accounting system not having been updated as at the date of the Receivers and Managers' appointment. One material transaction relates to a payment of \$200,000 made on 6 September 2010 to the former Voluntary Administrator. This payment is discussed further in Section 11.

6.3.2 TRADE AND OTHER RECEIVABLES

A breakdown of Trade and Other Receivables is provided in the table below:

Current Trade and Other Receivables

	Notes	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Current:					
Trade receivables	a)	166	2,560	3,070	2,853
Provisions for impairment		-	(113)	(110)	(125)
Term receivables	b)	8,666	8,960	30,155	29,956
Income tax receivable		-	-	2,996	-
Sundry receivables		733	2,158	628	4,491
Loans to related parties	c)	1,360	1,250	-	-
Total		10,925	14,815	36,739	37,175

Notes

a) Trade Receivables

Trade Receivables relate to agistment fees on plantation land, rent due on a subleased part of the Willmott Group's head office and Scheme application funds not yet received.

b) Term Receivables

Term receivables relate to Grower Investor finance loans. These are typically interest free loans offered by WF to Grower Investors for Woodlot investments. The decline from \$30.3m in FY09 to \$9m in FY10 reflects the significantly lower 2010 Scheme sales. As these loans were interest free they represent a funding cost for the Willmott Group, however the loans also sought to improve Woodlot Sales. The Willmott Group also provided principal and interest loans to Grower Investors as discussed in section 6.3.8 below.

c) Loans to related parties

A breakdown of Related Party Loans is provided below.

Loans to Related Parties

	Relationship to Willmott Group	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
90 West Asset Management	Partly owned subsidiary	965	865	-	-
Willmott Timbers Pty Ltd	Partly owned subsidiary	10	-	-	-
Burke Bond & Co.	Related company of former Director	385	385	-	-
Total		1,360	1,250	-	-

We note that Burke Bond & Co. appears to be an entity associated with a former Willmott Group director.

Related party transactions are further discussed at Section 11.8.5.

6.3.3 INVENTORIES

Inventories consist of both Woodlot inventories and timber processing inventories from WTIM until it was deconsolidated on 1 July 2010. A breakdown of inventories is provided in the table below.

Inventories

	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Woodlot Projects:				
Seedlings and seeds	1,371	1,849	1,262	120
Chemicals	210	206	297	148
Timber Processing:				
Sawmill timber	-	975	1,526	1,810
Work in progress	-	783	647	445
Chemicals	-	34	34	7
Total	1,581	3,847	3,766	2,530

6.3.4 DEFERRED TAX ASSETS

Deferred Tax Assets represent an expected future tax benefit, such as carried forward tax losses which can be offset against future taxable income. Under relevant accounting standards, Deferred Tax Assets are only able to be recognised to the extent that it is probable that the full benefit of the Deferred Tax Asset will be utilised in the future. It is unlikely that either the current or non-current Deferred Tax Asset balances will be recoverable and no value is likely to be derived from this asset.

6.3.5 PREPAYMENTS

A breakdown of prepaid items is provided below.

Prepayments

	Notes	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Current:					
External brokerage commission	a)	1,850	2,914	6,497	10,083
Incentives		-	-	-	2,210
Plantation land leases	b)	1,049	883	1,032	487
Deposits on purchase contracts for plantation land		1,831	920	4,263	1,929
Other		1,482	3,124	4,794	-
Total Current Prepayments		6,212	7,841	16,586	14,709
Non- Current:					
Plantation land leases	b)	33,911	34,072	34,497	19,533
Other		1	1	-	-
Total		40,123	41,914	51,082	34,242

Notes

a) External Brokerage Commission

External brokerage commission prepayments represent commissions paid to financial advisors which are yet to be expensed through the Profit and Loss in line with the recognition of Woodlot Sales revenue as discussed in Section 6.2.1.

The trend of reducing commissions is directly attributable to the decline in Woodlot Sales.

b) Plantation Land Leases

The carrying amount of Plantation Land Leases (circa \$35m) relates to prepaid leases with HVP and FNSW and reflects the amount yet to be amortised over the period of the leases.

We understand that Willmott Group prepaid leases for the duration required to meet its obligations to Grower Investors. This involved a significant cash outflow. Under relevant accounting standards an asset is created for this value and is subsequently amortised or expensed as the lease expires.

The method of amortisation and testing the carrying value of the lease prepayment is subject to further investigation which may require the carrying value to be restated.

6.3.6 ASSETS HELD FOR SALE

'Assets Held For Sale' are assets which are planned for disposal within a 12 month period. The balance at FY10 represents the book value of WFL's 'Rippling Waters' property in NSW. We understand that this property was sold by the Receivers and Managers at auction on 22 October 2010 for approximately \$5.7m representing a loss on the book value of approximately \$2.9m. The valuation of land assets is discussed in Section 6.3.9 (a).

6.3.7 FINANCIAL ASSETS

The Willmott Group records its investments in 90 West Asset Management Ltd (a boutique wholesale fund manager) (**90 West**), WTIM and ETL as financial assets at fair value. Any movements in the value of these amounts are recognised in the Profit and Loss.

The table below summarises the Willmott Group's investments in non-controlled entities.

Financial Assets

	Notes	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Current:					
90 West Asset Management	a)	315	2,415	-	-
Total Current Financial Assets		315	2,415	-	-
Non Current:					
90 West Asset Management	a)	-	-	2,057	2,000
Investment in WTIM	b)	5,132	-	-	-
Investment in ETL	b)	2,454	2,454	-	-
Total Non-Current Financial Assets		7,587	2,454	2,057	2,000
Total		7,902	4,869	2,057	2,000

Notes

- a) The Willmott Group was involved in the establishment of the '90 West Global Basic Materials Fund'. This fund invested in companies involved in the discovery, development and processing of raw materials such as forestry products. This investment was an attempt to diversify the Willmott Group's product offering to investors and to diversify the Willmott Group's income. Whilst the Willmott Group also holds a non-controlling shareholding in 90 West, the value of this shareholding has been exceeded by its share of 90 West's losses and therefore it has a carrying amount of nil.

The amounts above represent the value of units held in the Global Basic Materials Fund managed by 90 West. The circumstances of the Willmott Group's investment are under investigation.

- b) Following the commencement of equity accounting for ETL and WTIM these investments have been recorded as financial assets. The values represent Willmott Group's view of the value of its shareholding in WTIM and ETL. At present we have not confirmed the appropriateness of the carrying values.

6.3.8 NON CURRENT TRADE RECEIVABLES

A breakdown of Non Current Trade Receivables is provided in the table below:

Non-Current Trade Receivables

	Notes	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Non-current:					
Term receivables	a)	72,875	75,243	64,577	62,088
Provisions for impairment	b)	(2,710)	(2,710)	(1,072)	(838)
Total Non-Current Receivables		70,165	72,533	63,505	61,250
Other receivables:					
Future harvest proceeds	c)	21,619	21,162	11,285	5,218
Loans to related parties		-	-	711	141
Total		91,784	93,695	75,501	66,609

Notes

a) Non Current Term Receivables

Term Receivables relate to Grower Investor finance loans issued by WF and WFL that are due for repayment between 3 to 12 years and generally include principal and interest. The increase from \$64.6m in FY09 to \$75.2m in FY10 reflects WF's funding of the 2010 Scheme sales.

The Willmott Group provided loans to Grower Investors to facilitate Woodlot Sales growth. The Willmott Group sourced funding for these loans from internal sources (i.e. balance sheet funded loans) and via arrangements with external financiers.

While the finance terms available to Grower Investors varied between Schemes, the options generally available to Grower Investors included 'Interest Only' and 'Principal and Interest' loans for terms of between 3 years and 12 years. As stated in section 6.3.2a), the Willmott Group also provided one year interest free loans to enable Grower Investors to invest in its Schemes.

From 2007 to 2009 inclusive, CBA, through its subsidiary MIS Funding No. 1 Pty Ltd, provided Grower Investors with the majority of loans. In 2007 MIS Funding No. 1 Pty Ltd also partially purchased the Willmott Group's existing loan book to the value of \$90.4m. In late 2009 we understand that CBA advised the Willmott Group that it was no longer willing to provide Grower Investor finance.

In FY10, WFL negotiated a replacement finance arrangement with Merricks Capital, subject to certain conditions, including the achievement of a minimum level of 2010 Scheme sales of \$40m. This condition was not satisfied with the 2010 Scheme achieving only \$19.6m of sales.

In the absence of a third party financial institution to provide Grower finance, loans were provided by WFL or WF. This meant that financed 2010 Scheme sales of \$18.2m were internally funded by the Willmott Group.

The table below indicates that less than 10% of Woodlot sales each year were made without Grower Investor finance, highlighting the importance of such finance in facilitating sales.

Woodlot Sales

	Woodlot Sales (\$'000s)			
	FY10	FY09	FY08	FY07
Cash Sales:	1,365	5,710	8,580	3,294
% of Woodlot Sales without Grower Investor finance	7%	9%	9%	7%
Financed Sales:				
1 Year Finance - Interest Free	5,005	16,155	22,451	11,146
3 Year Finance – P & L	500	190	155	237
3 Year Finance -Interest Only	N/A	835	5,007	2,662
5 Year Finance - P & L	1,845	925	2,511	1,216
5 Year Finance -Interest Only	N/A	145	384	190
7 Year Finance - P & L	10,880	1,745	1,922	1,796
7 Year Finance -Interest Only	N/A	2,850	2,370	2,178
10 Year Finance - P & L	N/A	1,955	3,972	1,740
10 Year Finance -Interest Only	N/A	13,605	14,771	2,694
12 Year Finance - P & L	N/A	2,735	3,065	3,979
12 Year Finance -Interest Only	N/A	19,615	32,153	13,969
Total Woodlot Sales financed	18,230	60,755	88,761	41,807
Total Woodlot Sales	19,595	66,465	97,340	45,101

We note that there are minor inconsistencies in the information reported by the Willmott Group in relation to the FY09 and FY10 Woodlot Sales outlined above and the Woodlot Sales as reported in Section 6.2.2(a). We are advised by management that the FY09 variance of \$30,000 likely relates to sales applications withdrawn after financial year end and that sales for FY10 above exclude Timberland Fund Sales totalling \$223,000.

Whilst Willmott Group management partly attribute the decline in 2010 Sales to the withdrawal of previously available finance terms to potential Grower Investors, the fact that Willmott Group funding, including 12 month interest free loans and the arrangement with Merricks Capital were available, suggests that Grower Investor finance was not the sole determining factor.

The Willmott Group loan book is an asset that falls under the Banking Syndicate's fixed and floating charge. As such, the Receivers and Managers have been managing the collection of the loan book since their appointment.

b) Provision for Impairment

The Provision for Impairment estimates the uncollectable portion of receivables. We note that this provision more than doubled from \$1.1m FY09 to \$2.7m in FY10. The increase reflects higher expected defaults from Grower Investors and the Willmott Group's repurchase of CBA Grower Investor loans in arrears by more than 90 days.

In May 2009, as part of the CBA's agreement to provide Grower Investor finance for FY09 Scheme sales, the Willmott Group agreed to repurchase \$8.8m of non-performing loans which the CBA had previously purchased from the Willmott Group in 2007. The Willmott Group repurchased these loans for \$7.8m.

c) Future Harvest Proceeds

Future Harvest Proceeds represent the value of maintenance and lease fees which the Willmott Group is expected to receive over the life of the contracts it holds with Grower Investors. This value is calculated on a NPV basis. (i.e. the value shown on the Balance Sheet represents the total dollars expected to be received

expressed in today's dollar values). As the plantations grow, this balance increases. As harvest proceeds are realised this item reduces.

The methodology for recognising such fees as revenue is discussed in section 6.2.1(b)

The measurement of this Balance Sheet item, and therefore the resultant revenue, is subject to numerous calculation assumptions. We note that Future Harvest Proceeds have increased by 116% and 87% in FY09 and FY10 respectively. We have conducted a review of the calculations prepared by the Willmott Group and provide the following comments:

- The calculation assumes the right to receive the income from harvest and the tax deduction relating to the future costs to be incurred without including the actual future costs. Whilst we are currently unable to quantify the amount excluded based on the presently available information, we consider that this calculation technique may have overstated the Willmott Group's revenue in FY10 and potentially earlier.
- Small variations to the underlying assumptions make significant differences in the measurement of this revenue and the corresponding asset. The key variables include:
 - The discount rate used for assessing the time value of money purposes. In FY10 a rate of 9.75% was used.
 - An "uncertainty" discount applied to reflect additional uncertainty including:
 - WFL's inexperience in managing Silky Oak and She-Oak plantations relative to Radiata Pine plantations;
 - the relative immaturity of plantations;
 - the lengthy period until realisation; and
 - the anticipated harvest cycle times;
 - The wood prices and related commodity price inflation over time.
 - The cubic meters of saleable timber likely to be generated per hectare.

Whilst some of the key assumptions used in FY10 appear to have been based on expert and industry opinion, it should be noted that there were substantial changes to accounting policy and assumptions used in FY09. Those changes included:

- a 13.5% pre-tax discount rate to a post-tax discount rates of 9.75% in the time value of money calculation;
- an "uncertainty" discount factor of 50% in FY09 and 30% in FY10; and
- an implied inflation rate of 3.5% to 2.5%.

At this point in time we are unable to comment on the appropriateness of these changes. However we note, that the changed assumptions alone, resulted in an increase in the 'Future Harvest Proceeds' component of the 'Trade and Other Receivables' balance by at least \$10m as at FY10. As such, the Willmott Group's plantation management and leasing revenue increased by the corresponding amount. Accordingly, we consider that the Willmott Group's before tax profit for FY10 increased by an amount of at least \$10m as a result of these changes.

We also note that the accounting policies published in the FY09 Accounts and the draft unaudited FY10 Accounts do not appear to adequately describe the asset measurement and revenue recognition attached to this material asset class.

This matter will continue to be investigated.

6.3.9 PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment is the Willmott Group's largest asset class. A breakdown of these items is detailed in the table below.

Property, Plant and Equipment

		YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
	Notes				
Freehold land		128,423	128,744	120,614	101,531
Roads		3,773	3,788	3,127	2,353
Freehold Total	a)	132,196	132,532	123,741	103,884
Plant and eEquipment	b)	1,002	6,295	8,540	5,668
Lease assets		449	457	547	919
Fixtures and fittings		1,518	1,116	1,223	1,189
Total		135,165	140,400	134,051	111,660

Notes

a) Freehold Land

WFL's freehold land is required to be carried at fair value (being the amount for which an asset could be exchanged between knowledgeable and willing parties in an arm's length transaction). The Accounts indicate that the freehold land valuation was based on directors' valuations supported by periodic valuations by independent valuers.

The Administrators believe that the valuation basis for the freehold land used by the directors was flawed.

As mentioned above, WFL engaged an independent valuer, who was specifically instructed to assess the market value of freehold land ignoring the planted forests, the term of encumbrance created by the plantations as well as Grower Investor interests. Accordingly, the valuation was conducted on the basis that the land was in a cleared, fenced, watered and pastured state. Further, the FY10 independent valuation noted that the resulting valuation should not be construed as the market value of the land encumbered by the existing use. It further stated that the valuation could not be used on a standalone basis for financial reporting purposes as it did not account for use of the land for Grower Investor interests nor the costs of rehabilitation at reversion. WFL's directors were ultimately responsible for reflecting the impact of the encumbrances in arriving at book value of the freehold land portfolio.

The encumbrance created by Grower Investor interests was not considered in the valuation specifically sought by WFL and, if included, would likely result in a material reduction in the land valuation to the value carried in the Balance Sheet.

Given the above, we consider the valuation of WFL's freehold land as stated in the Balance Sheet to be materially overstated.

b) Plant and Equipment

Plant and Equipment largely represents WFP and WTIM's timber mill plant and equipment. The decline in this value since FY10 is largely the result of WTIM's deconsolidation.

6.3.10 STANDING TIMBER

Standing Timber represents the Willmott Group's entitlement to receive future harvest proceeds derived from:

- Radiata pine Woodlots owned directly by the Willmott Group; and
- Radiata pine Woodlots owned by Grower Investors who have contractually assigned a portion of the harvest proceeds (typically 25-30%) to the Willmott Group in exchange for deferring interest and loan repayments until the Woodlots are harvested. These loan arrangements were put in place prior to the listing of WFL on the ASX, via a related party transaction and have a value of \$56.8m.

The Standing Timber's book value is based on the NPV of expected post-tax cashflows from the sale of Woodlot products such as pulpwood, preservation and sawlogs during the life of the plantation.

As discussed above, NPV calculations are subject to numerous assumptions. The Willmott Group's assumptions in the calculation of the NPV of post-tax cash flows in FY10 include:

- timber yields as reported by independent forestry experts contracted by WFL;
- timber prices in accordance with rates published by independent forestry experts;
- indexation of 2.5% p.a. to allow for inflation; and
- a nominal post-tax discount rate of 9.75% determined having regard to the following:
 - the illiquid nature of the plantations prior to maturity;
 - lack of market evidence as to the value of forest plantations midway through their life cycle; and
 - adoption of a valuation approach whereby the softwood forest plantations reach maturity 25 years after planting and will be thinned at 13 years and 18 years with clear fell at 25 years.

As noted above in relation to the Future Harvest Proceeds, the approach utilised appears to assume the right to receive the income and the tax deduction relating to the future costs to be incurred without including the actual future costs. We consider that this valuation approach has overstated the Willmott Group's carrying value of the assets and the associated revenue, however the quantification of the overstatement has not been possible on the information presently available.

We also note that the Standing Timber Asset was not subject to the "uncertainty discount" outlined under future harvest proceeds yet substantially the same risks are borne by the Willmott Group.

A number of these matters require further investigation.

6.3.11 INTANGIBLES

Intangibles include goodwill on the consolidation of partly owned subsidiaries (ETL, BEA) and patents held by ETL. As previously stated, these intangibles were no longer recognised as assets following changes to WFL's ownership of these two entities.

6.3.12 ACCOUNTS PAYABLE

Accounts Payable are summarised in the table below.

Accounts Payable

	Notes	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Trade creditors		2,632	2,639	2,207	2,767
Commissions payable	a)	1,150	3,195	6,051	10,707
GST payable		-	17	5,738	8,228
Incentives payable		-	-	-	2,862
Seedlings payable		1,296	1,447	4,082	2,640
Other creditors and accruals	b)	5,366	9,900	14,585	8,757
Total		10,444	17,198	32,663	35,961

Notes

- a) The decline in Commissions payable reflects declining Woodlot Sales since 2008.
- b) Other creditors and accruals include creditors of WTIM, Grower Insurance Proceeds yet to be distributed, Grower Harvest Proceeds yet to be distributed, an accrual for the auditors remuneration, redundancies, accrued HVP and FNSW forestry costs, sales and marketing sponsorship costs, accrued interest on borrowings and various other accruals. In FY09, an amount of \$3.8m was included for Provision for Maintenance/ Warranty as discussed earlier in section 6.2.8.

6.3.13 BORROWINGS

Borrowings relate to the Willmott Group's debt facilities with the Banking Syndicate, hire purchase and lease liabilities. A breakdown of borrowings is outlined in the table below:

Borrowings

	Note	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Current:					
Hire purchase and lease liability		416	838	1,147	1,604
Syndicated debt facilities	a)	33,000	33,000	-	-
Total Current Borrowings		33,416	33,838	1,147	1,604
Non Current:					
Hire purchase and lease liability		306	1,171	2,590	3,420
Syndicated debt facilities	a)	87,000	80,000	87,000	-
CBA loan facilities		-	-	-	45,553
Total Non-Current Borrowings		87,306	81,171	89,590	48,973
Total Borrowings		120,722	115,009	90,737	50,577

Note

- a) The Willmott Group entered into new debt facilities with its Banking Syndicate in March 2009 totalling \$135m. These facilities are detailed in the table below:

Name	Renewal date	Amount (\$'000)	Drawdown as at FY10 (\$'000)	Drawdown as at YTD to 6 Sep10 (\$'000)
Facility A	March 2011	\$55,000	\$33,000	\$40,000
Facility B	March 2012	\$80,000	\$80,000	\$80,000
Total		\$135,000	\$113,000	\$120,000

Facility A – seasonal loan facility of up to \$55m which was due to expire in March 2011. The Willmott Group was required to repay the facility in full on 3 August each year. The facility was used for working capital purposes.

Facility B – revolving loan facility totalling \$80m which was due to expire in March 2012. The facility was used as core debt.

The Willmott Group's directors investigated strategies to reduce debt and generate cashflow positive operations as part of a restructuring plan considered in March 2010. However, as at 6 September 2010, the Willmott Group had drawn \$120m under these debt facilities and had \$722,000 in hire purchase liabilities.

An additional \$2m facility provided by the CBA, not included above, related to bank guarantees issued on behalf of the Willmott Group to FNSW and property rental bonds.

In July 2010, following lower than expected FY10 Scheme sales, the Willmott Group entered into negotiations with the Banking Syndicate in relation to a restructure of its business operations and proposed a revised capital management plan. On 20 July 2010 the Banking Syndicate advised that it had appointed KordaMentha to undertake a review of the Willmott Group and its business model.

Whilst the KordaMentha review was being undertaken, the Willmott Group was unable to increase the quantum of its banking facilities and needed to obtain a number of temporary waivers from the Banking Syndicate in respect of those facilities.

6.3.14 PROVISIONS

Provisions are outlined in the table below:

Provisions

	Notes	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Current:					
Provision for unearned revenue	a)	15,451	23,714	49,722	76,208
Provision for dividend		-	-	-	2,980
Provision for employee entitlements		1,343	1,962	1,726	1,484
Provision for income tax		-	71	-	13,438
Provision for PINES Coupon		-	-	704	704
Provision for Warranty	b)	750	1,000	10,208	4,348
Provision for unearned grant funding		-	-	870	-
Total Current Provisions		17,544	26,747	63,230	99,162
Non-current:					
Provision for employee entitlements		131	409	425	294
Provision for unearned revenue	a)	12,396	12,564	14,320	15,333
Total Non-Current Provisions		12,527	12,973	14,745	15,627
Total Provisions		30,072	39,720	77,975	114,789

Notes

a) Provision for Unearned Revenue

The provision for unearned revenue reflects Woodlot Sales which are classified as a liability until sufficient work had been done to allow the sale to be treated as revenue during the Scheme establishment period. The downward trend of unearned revenue, particularly the current provision, is consistent with the deterioration in Scheme sales.

b) Provision for Warranty

As discussed in Section 6.2.8 (d), the provision for warranty relates to the guarantee provided to Grower Investors to replant Woodlots if they were materially damaged in the first 2 years following planting. The provision increased significantly in FY09 as a result of peak FY08 Woodlot sales, which were predominately established in FY09. The provision was reduced in FY10 to reflect a lower level of post plantation maintenance to be carried out following better than expected seedling survival rates.

c) Other Provisions

In addition to the existing provisions, we have considered whether any other provisions should be recorded on the Willmott Group's Balance Sheet as discussed below.

When Grower Investors invested in a Scheme, they generally entered into an establishment and maintenance agreement, whereby the Willmott Group undertook to perform ongoing maintenance activity on the Woodlot plantations throughout the life of the project. As consideration, Grower Investors typically undertook to pay the Willmott Group for that work by assigning part of their future harvest proceeds.

The Willmott Group's accounting policy did not recognise these cost obligations as a liability. We have therefore considered whether these cost obligations represent a "present obligation" as defined by Accounting Standard *AASB 137 Provisions, contingent liabilities and contingent assets* and whether they were therefore required to be included as a liability in the Willmott Group's Balance Sheet.

If the Willmott Group is committed to continue maintaining Grower Investor woodlots, the right to be reimbursed by the Grower Investors could also be recognised to the extent that there was virtual certainty that the reimbursement would be received. Paragraph 53 of AASB 137 allows this asset to be recognised only to the extent of the present obligation. Prima facie this accounting policy is potentially unlikely to have a material difference to the Willmott Group's net asset and profit position, although total assets and total liabilities may be understated.

However, we also note that where the Willmott Group's maintenance costs are greater than the assigned future harvest proceeds, then AASB 137 requires an immediate recognition of the "future losses" through the Willmott Group's income statement. Based on the analysis performed by the independent forestry expert, Poyry (see section 9.8.1) it would appear that not only do some onerous contracts potentially exist, but that a number of the Willmott Group's plantations are not economically viable. Poyry have estimated the costs to complete planted Schemes at \$123m. Willmott Group management have also advised that the deferred lease and maintenance fee (usually 7% out of the 10% taken from proceeds at harvest) was insufficient to cover the costs of maintenance.

We note that management have advised that periodic assessments of the Schemes were undertaken to ensure that expected future harvest proceeds exceeded future maintenance costs. In management's opinion, the Schemes were cash flow positive and no onerous contracts or contingent liabilities existed. Furthermore, these assessments were apparently considered by the audit committee, with the assistance of forestry management where appropriate, and ultimately approved by their auditor.

The Administrators are continuing to investigate this issue. However, it is likely that a material component of the \$58m of forestry maintenance costs identified in the Poyry report should have been recorded as liability in the Balance Sheet of the Willmott Group, thereby reducing its net asset position. We further consider this and other impacts in Section 11.10.9 of this Report.

6.3.15 PREFERENCE SHARES

Preference Shares relate to WFL's PINES on issue. The treatment of PINES as a liability rather than equity appears consistent with *AASB 132 Financial Instruments: Presentation*. Further discussion in relation to PINES is included earlier in Section 6.2.1(i).

6.3.16 CONTRIBUTED EQUITY

The Contributed Equity balance is summarised below:

Contributed Equity

	YTD to 6 Sep10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Balance at beginning of year	93,558	55,691	55,504	54,218
New issues – Ordinary Shares	-	38,726	187	1,286
Equity Issue costs	-	(859)	-	-
Total	93,558	93,558	55,691	55,504

The issue of ordinary shares in FY10 was largely the result of WFL's capital raising in November 2009 which raised approximately \$20.5m. WFL advised the ASX that funds raised would be used to fund growth opportunities. The use of these funds is further discussed in section 6.4.

In addition to the above, 223,979 PINES were exchanged for 32.8m ordinary shares in WFL with an issue value of \$17.9m. Note that this transaction did not raise any additional funds.

6.3.17 RETAINED EARNINGS

Retained Earnings are detailed in the table below.

Retained Earnings

	Notes	YTD to 6 Sep 10 (Unaudited) (\$'000)	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)
Balance at beginning of year		52,391	46,514	40,426	38,124
Profit/ (Loss) attributable to Members of the parent entity		(483)	9,960	14,735	8,253
Deconsolidation of subsidiary		445	560	-	-
Dividends on Ordinary Shares	a)	-	(4,643)	(2,980)	(5,951)
Total	b)	52,353	52,391	52,181	40,426

Notes

a) Dividends from Ordinary Shares

WFL paid fully franked dividends in FY08 (10c), FY09 (10c) and FY10 (5c). The FY10 dividends were paid on 15 September 2009 (03c) and 31 March 2010 (02c). Nanmar Pty Ltd is WFL's largest shareholder whose dividend entitlements totalled \$6.69m from FY08 to FY10. Note that both Jonathan Madgwick and Marcus Derham are directors of Nanmar Pty Ltd and that Marcus Derham is a shareholder in Nanmar Pty Ltd.

b) Total Retained Earnings

We note that the retained earnings "*Balance at beginning of year*" in the draft unaudited 30 June 2010 financial statements does not match with the closing retained earnings balance at 30 June 2009 by approximately \$5.6m. Willmott Group management have advised the difference relates to adjustments made through the Retained Earnings balances in prior years following a review of the accounting method for prepaid leases.

6.4 CONSOLIDATED CASH FLOW AND ANALYSIS

Detailed below is a summary of the Willmott Group's audited cash flow statement for FY08, FY09 and the draft unaudited cash flow statement for FY10.

ETL's cash flow has been included in the cash flow statement until 28 June 2010 when WFL's ownership was diluted to 24%. WTIM's cash flow has been included in cash flow statement for FY10.

Below we have restated the statutory cashflow for analysis purposes:

Statement of Cash Flows

	FY10 (Unaudited) (\$'000)	FY09 (Audited) (\$'000)	FY08 (Audited) (\$'000)	Total (\$'000)
Cash flows from operating activities:				
Receipts from customers	32,355	86,078	122,071	240,504
Interest received	2,697	1,812	2,864	7,373
Payments to suppliers and employees	(66,483)	(84,730)	(56,363)	(207,576)
Payment for prepaid leases	(1,095)	(545)	138	(1,502)
Borrowing costs paid	(8,832)	(4,869)	(4,968)	(18,669)
PINES dividend paid	(2,016)	(2,800)	(2,800)	(7,616)
Income taxes (paid)/received	(6,736)	(16,375)	(3,069)	(26,180)
Net cash used in operating activities	(50,110)	(21,429)	57,873	(13,666)
Cash flows from investing activities:				
Payments for plantation land and improvements	(9,598)	(28,646)	(25,713)	(63,957)
(Payment)/proceeds for long term prepaid leases	424	(14,964)	(9,700)	(24,240)
(Payment)/proceeds for plant and equipment	813	(3,612)	(1,269)	(4,068)
(Increase)/decrease in term receivables	11,677	(2,688)	(13,847)	(4,858)
Realisation from / (payments for) investments	(2,095)	(833)	4,179	1,251
Loss of control of subsidiary (net of cash)	(1,241)	-	-	(1,241)
Net cash provided by / (used in) investing activities	(20)	(50,743)	(46,350)	(97,113)
Cash flows from financing activities:				
Proceeds from issue of shares	37,575	187	-	37,762
Proceeds from borrowings	5,678	39,743	9,541	54,962
Dividends paid	(4,352)	(5,959)	(5,865)	(16,176)
Net cash provided by financing activities	38,901	33,971	3,676	76,548
Net increase / (decrease) in cash held	(11,229)	(38,201)	15,199	(34,231)
Cash at beginning of year	23,198	61,399	46,200	-
Cash at end of year	11,969	23,198	61,399	

We make the following high level observations in relation to the key cashflow categories:

- The Willmott Group's net operating activities for the period FY08 to FY10 resulted in a net cash outflow totalling \$13.7m and total cash decreased by \$49.4m from its peak at year end FY08;
- In addition, the Willmott Group's net investing activities over the same period resulted in a net cash outflow totalling \$97.1m. This was largely the result of land purchases (\$64m) and prepaid lease payments (\$24.2m); and
- Total cash of \$76.5m was raised via equity issue and debt. This appears to have been largely used to fund land purchases and lease prepayments. Accordingly, the operating cash surplus generated in 2008 was eroded by operating losses in the subsequent two years.

7. DIRECTORS' REPORT AS TO AFFAIRS (RATA)

Upon the appointment of an Administrator, section 438B of the Act requires the directors to provide a Report as to Affairs (**RATA**) outlining the financial position of the company, including net book values and estimated realisable values for all known assets together with details of known liabilities.

The directors provided completed RATA's to the Receivers and Managers for each Willmott Group entity on 30 September 2010. On our request, the directors provided additional RATA's to the Administrators on 24 November 2010, containing identical values as those RATA's previously provided to the Receivers and Managers.

We have detailed below the book value asset and liability position with respect to the parent entity, WFL.

7.1 WFL RATA

The directors have not provided the Administrators with estimated realisable values for identified assets, as is required under the Act. Further, the directors have not provided any explanation as to why these estimations have not been made.

Based on net book values, the directors have estimated a net asset surplus of circa \$75m. The Administrators consider that on an estimated realisable basis the asset values reflected in the RATA are materially overstated, principally for the reasons outlined in section 6.3.9 of this Report. Furthermore, significant liabilities such as the costs associated with Scheme maintenance may not have been fully accounted for.

The Administrators believe that realistically there will be a significant shortfall in the overall financial position. We have not disclosed our estimated shortfall as by doing so may prejudice the realisable value of key assets.

Willmott Forests Limited		RATA Net Book Value Amount
Directors' Report as to Affairs	Notes	(\$'000)
Assets subject to floating charges		
Interests in land	a)	51,724
Sundry debtors	b)	64,120
Cash at bank	c)	7,268
Stock on hand	d)	1,581
Plant and equipment	e)	2,495
Other assets	f)	95,157
Total Assets subject to floating charge		222,345
Assets subject to specific charges	g)	86,614
Less: Amounts owing under charge		(86,614)
Total Assets		222,345
Less:		
Priority creditors	h)	(1,215)
Unsecured creditors	i)	(145,946)
Total Liabilities		147,161
Contingent liabilities		(0)
Estimated Surplus / (deficit)		75,184

Notes

- a) Interests in land represents the valuation of freehold land situated in Bombala, NSW (excluded from the Banking Syndicate's security). See note (g) below and section 8.1 of this Report for further details.
- b) Sundry debtors comprise the total amount owing from Grower Investors to WFL, intercompany loans, convertible notes and outstanding GST refunds.
- c) Cash at bank consists of all funds held in WFL bank accounts as at the date of appointment.
- d) Stock on hand represents plantation seedlings, fertilizers / chemicals, and inventory items involved in timber processing. These are detailed in section 6.3.3 of this Report.
- e) Plant and equipment includes fixtures and fittings and office equipment and furniture.
- f) Other assets consist of prepayments made to trade creditors of \$591,335 along with prepaid lease and management fees paid to HVP and FNSW of \$31.7m and \$3.3m respectively. Further investment comprises the equity in Willmott Group subsidiaries, units in the Timberland Fund, convertibles notes and receivables from harvesting activities.
- g) Assets subject to specific charges represents the total market valuation of plantation land that falls under the Banking Syndicate's security. It also includes leased assets net of accumulated depreciation.
- h) Claims by employees for unpaid annual leave and long service leave have priority for payment before unsecured creditors under the Act. The reported RATA value of \$1,215,285 is yet to be verified by either the Administrators or Receivers and Managers of the Willmott Group.
- i) Unsecured creditors are comprised of the below:

Unsecured Creditors	(\$'000)
Trade creditors	2,292
Harvesting	193
Grower Insurance Proceeds	1,645
Intercompany Loan - Willmott Subscriber	120,000
Accrued interest on syndicated banking facility	1,554
Trailing Commissions - FY08 Scheme	359
Trailing Commissions - FY09 Scheme	778
Trailing Commissions - FY10 Scheme	147
Seedling costs	1,296
PINES	8,468
Interest Rate Swaps	1,351
Unsettled Property purchase	7,800
Payroll Tax Accrual	9
Other Creditors - Interest Margin Shortfall (CBA)	30
ATO FBT	17
Unpresented Cheques - Refund of Insurance	7
Total	145,946

The directors' RATA figures may differ from actual realisable values for the following reasons:

- the net book value is based upon the Willmott Groups historical financial records which are still under review by the Administrators;
- the asset values have yet to be confirmed by the Administrators; and
- creditor claims are yet to be adjudicated upon and quantified. Importantly, the matter of Grower Investors as creditors is yet to be finalised.

7.2 WILLMOTT SUBSIDIARY RATAs

The net asset position for each of the Willmott Group subsidiaries (based on book values provided by the directors' in their RATAs) is summarised below, along with the Administrators' brief comments. Appendix F includes full RATA details for the Willmott Group subsidiaries, as well as details on intercompany loan balances mentioned below.

The directors have not provided the Administrators with any estimated realisable values for known assets.

As an overriding observation, the estimated realisable value of key assets detailed in the subsidiary RATAs is largely unknown. Because of the intercompany loans between the subsidiaries, the estimated realisable value of the Willmott Group assets is the most appropriate way to consider the current financial position of the subsidiaries. It is likely that on an estimated realisable basis there will be an overall deficiency in Willmott Group assets.

Company	Net Book Value Surplus / (Deficit) \$000	RATA Explanation	Administrators' Commentary
WF	7,535	<ul style="list-style-type: none"> Primary assets are loan debtors of \$70m. WFL loan (\$49m) and contingent unearned lease and maintenance costs (\$13.4m) form key liabilities. 	<ul style="list-style-type: none"> Net asset surplus does not take into consideration the debt owed to the Banking Syndicate. The estimated realisable value of primary assets is likely to be materially different to the book values used by the directors.
WFN	Nil	<ul style="list-style-type: none"> Sole asset is \$4,700 being cash loaned from WFL. 	<ul style="list-style-type: none"> Net asset position would appear reasonable. Any cash at bank on the date of the Receivers & Managers' appointment would have been captured under the Banking Syndicate's security.
WFIM	405	<ul style="list-style-type: none"> Asset value is largely represented by a loan made to WFL for \$384k while there are no reported liabilities. 	<ul style="list-style-type: none"> The validity of intercompany loans have not been established. The ability of WFIM to collect any intercompany loan from WFL given its current financial position is uncertain. Net asset surplus does not take into consideration the debt owed to the Banking Syndicate.
WFP	(1,227)	<ul style="list-style-type: none"> Assets primarily represent land held at \$223k. An intercompany loan of \$1.475m from WFL is the foremost liability. 	<ul style="list-style-type: none"> The actual realisable value of the land may be considerably less than book value (refer section 6.3.8), leading to a likely increased deficit position.
WE	(270)	<ul style="list-style-type: none"> Assets consist of shares in ETL valued at \$2.4m. The primary liability is a loan from WFL for \$2.7m. 	<ul style="list-style-type: none"> Net deficit position may prove accurate, dependant on the realisable value of the shares, and the validity of the intercompany loan.
WN	Nil	<ul style="list-style-type: none"> WFL is a debtor of WN for \$120m. Liabilities of \$120m are owed to WS. 	<ul style="list-style-type: none"> The ability to realise the intercompany debtor loan is uncertain.
WS	Nil	<ul style="list-style-type: none"> WS was the primary borrower of funds from the Banking Syndicate 	<ul style="list-style-type: none"> The ability to realise the intercompany debtor loan is uncertain.

Company	Net Book Value Surplus / (Deficit) \$000	RATA Explanation	Administrators' Commentary
		(\$120m liability). These funds were transferred to WN by a deferred debenture facility (debtor asset for \$120m).	
BEA	5,543	<ul style="list-style-type: none"> Assets consist of a loan to WFL for \$2m and shares in BIO for \$3.5m. There are no liabilities. 	<ul style="list-style-type: none"> Net surplus may be significantly overstated dependant on the validity of intercompany loans and the ability to realise those loans. Shareholder value in BIO is uncertain but may be minimal given its current financial position. Net asset surplus does not take into consideration the debt owed to the Banking Syndicate.
BIO	3,369	<ul style="list-style-type: none"> Only asset is a debt of \$3,3m being an intercompany loan to WFL. 	<ul style="list-style-type: none"> Net surplus may be significantly overstated dependant on the validity of intercompany loans and the ability to realise those loans. Net asset surplus does not take into consideration the debt owed to the Banking Syndicate.

Note

Should intercompany credit loans be valid they would rank as an unsecured creditor and be eligible for the same distribution proportion as other unsecured creditors.

7.3 DIRECTORS' EXPLANATION FOR THE WILLMOTT GROUP'S DIFFICULTIES

The directors of the Willmott Group have indicated that the only identifiable cause of failure was the withdrawal of debt facilities by the Banking Syndicate on 6 September 2010.

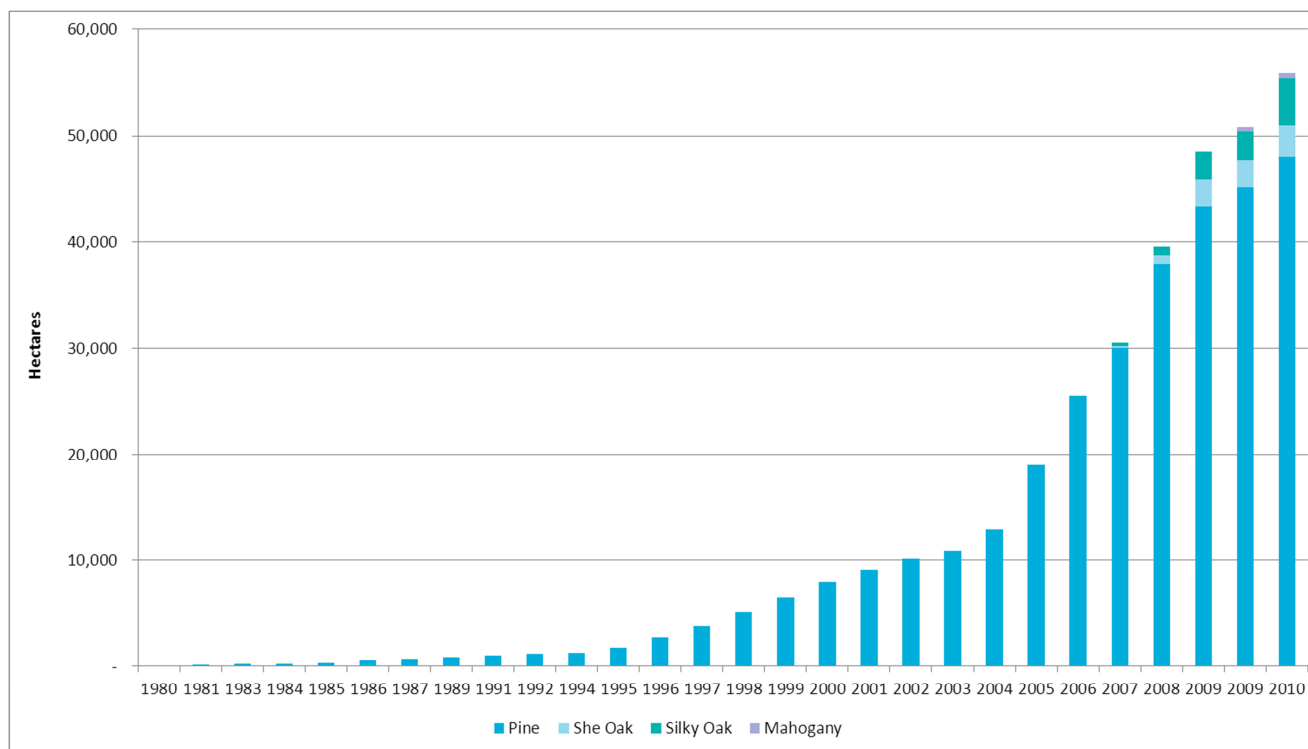
7.4 AMINISTRATORS' EXPLANATION FOR THE WILLMOTT GROUP'S DIFFICULTIES

We do not concur with the directors' explanation above. Whilst the Receivers and Managers' appointment had the effect of immediately withdrawing funding, the Willmott Group's failure was caused by the low level of 2010 Scheme sales. Furthermore, the Willmott Group deferred fee model was not sustainable in an environment of declining Scheme sales, without a significant restructure of operations.

8. WILLMOTT PLANTATIONS

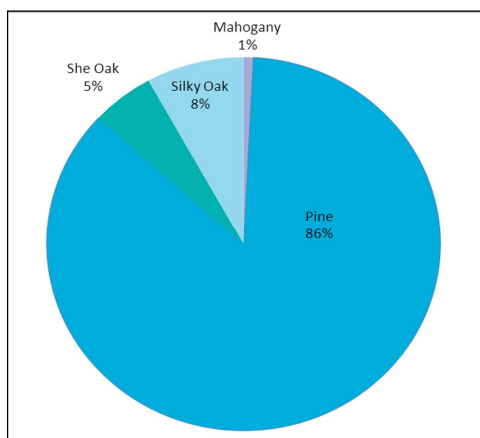
The Willmott Group's registered and unregistered Schemes are operated on either freehold land owned by Willmott Group or land leased from third parties.

The chart below indicates that the total plantation hectares have grown significantly in recent years, to an area totalling approximately 55,900 hectares as at 2010.



Source: Willmott FIDO Grower database

The chart below illustrates the breakdown of plantation species based on total hectares as at our appointment:



Source: Willmott FIDO Grower database

A breakdown of the species planted (or still required to be planted) for all of the Willmott Schemes as at 6 September 2010 is outlined in the tables below:

Plantation Species on Willmott Forests Owned Land (Hectares)

	Mahogany	Pine	She Oak	Silky Oak	Total
Bombala	-	18,938	-	-	18,938
Murray Valley	-	12,085	-	-	12,085
North Coast	-	-	2,908	2,694	5,602
Northern Territory	395	-	-	-	395
Unplanted	443	1,663	-	1,787	3,893
Total	838	32,986	2908	4,481	40,913

Source: Willmott FIDO Grower database and Willmott Management

8.1 FREEHOLD LAND

As at 6 September 2010, we understand that the Willmott Group owned approximately 64,000 hectares of freehold land, of which approximately 41,000 hectares was planted or required to be planted in relation to the Schemes. The book value of this freehold land in the Willmott Group accounts at appointment was \$132.2m. In section 6.3.9 of this Report we consider the appropriateness of this value.

The Willmott Group's freehold land is located in the regions outlined below. With the exception of the Bombala region, all land is currently under the control of the Receivers & Managers.

Bombala Region

The Bombala land located in NSW totals approximately 27,861 hectares, with approximately 19,000 hectares of pine currently planted. The remaining unplanted areas are either conservation land or not suitable for planting.

As outlined above, this land is not subject to the security held by the Banking Syndicate. As such, the Bombala land is an asset under the control of the Administrators.

Murray Valley Region

Approximately 22,312 hectares of the Willmott Group's freehold land is in the Murray Valley region in NSW. Approximately half (11,989 hectares) of this land is planted with pine in relation to Schemes. In addition, we understand that part of the Murray Valley land was acquired with approximately 96 hectares of semi-mature pine. This Pine has not been allocated to a Scheme.

North Coast Region

Freehold land located on the North Coast owned by the Willmott Group totals approximately 8,709 hectares. Plantations occupy approximately 64% (5,602 hectares) of this land which consist of both She Oak (2,908 hectares) and Silky Oak (2,694 hectares).

Northern Territory

Freehold land in the in the Douglas Daly region of the Northern Territory totals 5,340 hectares. This land is held for Mahogany plantations and has a net plantable area of approximately 3,000 hectares. As at 6 September 2010, approximately 395 hectares of Mahogany had been planted, of which 159 hectares is allocated to the 2009 Timberland Fund. A further 236 hectares of planted Mahogany is unallocated to a specific Scheme.

Unplanted

Approximately 3,893 hectares have not been planted in relation to the 2009 and 2010 Schemes. The unplanted portion of the 2009 Scheme relates to 1,676 hectares of Silky Oak. In relation to the 2010 Scheme, approximately 443 hectares of Mahogany, 1,663 hectares of Pine and 111 hectares of Silky Oak remain unplanted.

8.2 FNSW AND HVP LEASED LAND

In addition to WFL's freehold land, Schemes are also grown on land leased from third parties. Whilst these leases are prepaid, the leases are conditional on the ongoing maintenance and management of plantations.

Approximately 15,000 hectares is leased by WFL from either HVP (13,338 hectares) or FNSW (2,140 hectares). Around 17% of Grower Investors have their trees planted on leased land.

The Willmott Group's leasehold plantations are summarised below:

Plantation Species on Leased Land (Hectares)

	Mahogany	Pine	She Oak	Silky Oak	Total
FNSW	-	2,140	-	-	2,140
HVP	-	13,338	-	-	13,338
Total	-	15,478	-	-	15,478

The leasing arrangements with HVP form part of an overall arrangement comprising a:

1. relationship agreement which sets out the general agreement between WFL and HVP for the establishment and management of pine plantations;
2. lease which governs the lease of specific parcels of land;
3. forest property agreement pursuant to which ownership of the "forest property" (i.e. the trees) vests in WFIM as agent for the Grower Investors and HVP acknowledges that it has no interest in the forest property; and
4. forestry management agreement pursuant to which WFL grants the rights to manage the forests to HVP and provides them with a licence to access and use the land for this purpose.

Under the leasing arrangements with FNSW, WFL leases the land and FNSW provides forestry management services in respect of that land.

8.3 GROWER INVESTOR INSURANCE

On 22 November 2010 the Administrators issued correspondence to all Grower Investors regarding an offer from Agricola Crop Insurance to provide insurance coverage over their respective plantation interests for the period 30 September 2010 to 30 September 2011. This offer was also extended to Grower Investors who previously had insurance provided by WFL pursuant to constituent documents of the registered and unregistered Schemes. As the Administration is without funds, WFL was unable to meet its obligations to Grower Investors in this regard.

As highlighted to the Grower Investors, the insurance coverage is limited to damage that may occur to woodlots as a result of fire, impact and malicious damage only. The insurance coverage excludes all other perils including hail, snow and wind storm. The policyholder is WFL, but individual Grower Investors who have elected to take up the insurance option have their interests noted on the policy.

The policy is also dependent upon generally accepted forest fire management practices being adopted and followed. As disclosed to Grower Investors, due to the insolvency of WFL and the lack of funds available, the Administrators are not able to guarantee that this condition will be met. Consequently, there is a risk to Grower Investors that, if a fire occurs and the relevant forest fire management practices have not been completed, their claim will not be accepted by the insurer even though they have paid their premium. Notwithstanding this, approximately 60% of Grower Investors elected to take insurance over their individual woodlots with final payments being remitted to the underwriter on 14 January 2011.

9. SCHEME INVESTIGATIONS AND VIABILITY

Generally, a Managed Investment Scheme describes the formation and operation of projects (or schemes) with collective investments from a number of parties. Characteristics of standard schemes are that people contribute money or money's worth as consideration to acquire interests or rights to benefits produced by the Scheme. The contributions are typically pooled and normally used in a common enterprise to produce financial benefits, or benefits consisting of rights or interests in property for the investors who hold interests in the scheme.

A scheme with more than 20 members generally must be registered by ASIC under section 601EB of the Act and be operated by a RE which must be a public company. The RE must further hold an AFSL.

9.1 UNREGISTERED SCHEMES

WFL is the RE / Manager / Trustee of twenty-nine unregistered Schemes as detailed in Appendix E. The Receivers and Managers are in control of WFL in its role as RE / Manager / Trustee over seven of the twenty-nine unregistered Schemes. WFL in its own right is a significant Grower Investor in such Schemes.

The unregistered Schemes vary in structure, establishment process and the level of involvement of the various Willmott Group entities. It is not yet clear whether some or all of the arrangements have been assigned or novated to WFL to manage. The number of Grower Investors in each unregistered Scheme also differs, ranging between 1 and 73 parties involved. As with the registered Schemes, Grower Investors in many of the unregistered Schemes have entered into loan agreements to fund their investments, as discussed in section 5.2.

The constituent documents for some of the unregistered Schemes are very basic and include short form leases and service agreements. Other unregistered Schemes are described as partnerships and the constituent documents for those include a partnership deed, a deed of trust, a lease, a plantation and development agreement and an establishment and maintenance agreement. The constituent documents for some of the later unregistered Schemes include formal investment deeds, leases and forestry management agreements. For some of the unregistered Schemes the Administrators are still unable to locate full documentation.

The Willmott Group unregistered Schemes are unsystematic and not homogeneous, adding complexity to the analysis and management of those Schemes.

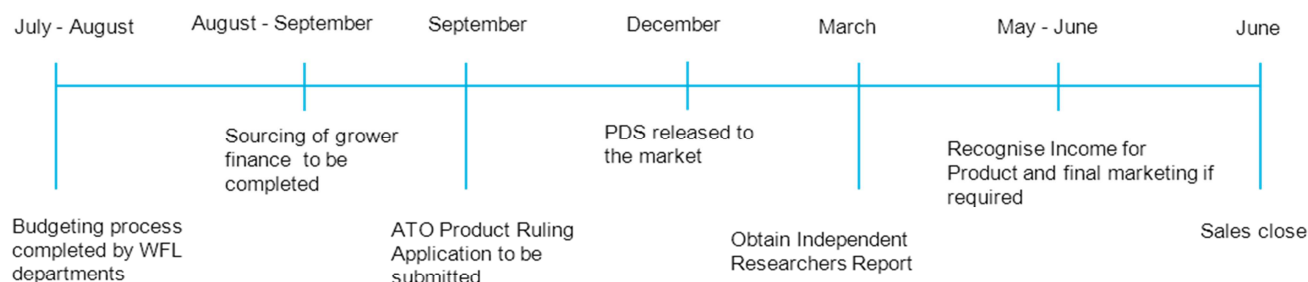
9.2 REGISTERED SCHEME ESTABLISHMENT PROCESS

WFL is the RE for eight registered Schemes listed below:

- | | |
|--|------------------|
| • Willmott Forests 1989-1991 Project | ARSN 092 516 651 |
| • Willmott Forests 1995-1999 Project | ARSN 089 598 612 |
| • Willmott Forests Project | ARSN 089 379 975 |
| • BioForest Dual Income Project 2006 | ARSN 119 153 623 |
| • BioForest Sustainable Timber and Biofuel Project 2007 | ARSN 124 133 535 |
| • Willmott Forests Premium Forestry Blend Project | ARSN 131 549 589 |
| • Willmott Forests Premium Timberland Fund No.1 | ARSN 136 768 520 |
| • Willmott Forests Premium Forestry Blend - 2010 Project | ARSN 142 722 585 |

For registered Schemes, the Willmott Group's budgets were originated around July each year with a Product Disclosure Statement (**PDS**) issued to the ATO for a product ruling in September of that year. Once a ruling was received, the PDS was sent to research groups for an investment rating and the product was then released to market in December, with sales closing and becoming known by 30 June the following calendar year.

This process is represented diagrammatically below:



9.3 WILLMOTT REGISTERED SCHEME STRUCTURE

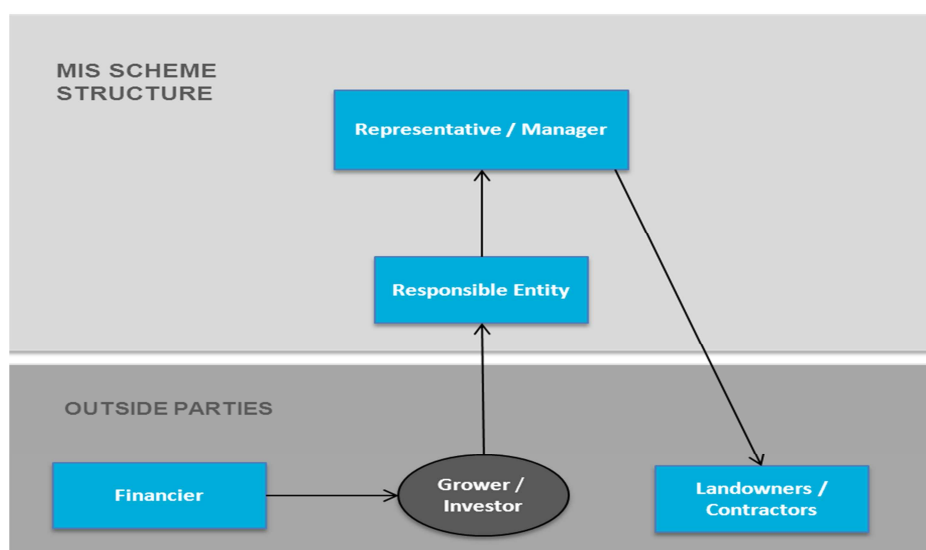
Typically, Grower Investors would pay 'upfront' application fees for forestry interests in the project property of the various Schemes and a deferred management fee would be deducted from any harvest proceeds. Project property included the right to plant, cultivate and harvest trees and receive income derived from those trees. The upfront payment was intended to cover the costs of establishing the project including land procurement and / or leasing costs, preparation, planting and maintenance costs associated with the Scheme for the period until final harvest. The deferred management costs / fees payable to the Willmott Group were to be recouped from final harvest proceeds, which, in most instances, would be in 25 years from origination. This method is sometimes referred to as a 'deferred fee' or 'set and forget' model.

With the exception of the Willmott Forests 1999 & 2000 Projects, where annual contributions are payable, the initial payment for the purchase of the forestry interest would be the only payment made by Grower Investors. The deferred fee would be deducted from the Grower's harvest proceeds.

This deferred fee model differed from models used by other organisations whereby recurring annual fees are charged to investors. The deferred fee model was deemed more attractive to some investors than the recurring fee model, as it only required a single payment upon initial investment. Investors could claim a tax deduction with no further involvement required for the period of the Scheme. The expectation was that a return on the investment would be made upon harvest of the trees.

9.4 MIS STRUCTURE DIAGRAM

The typical flow of funds of a registered Scheme is depicted in the table below:



A brief synopsis of the typical flow of funds within a Scheme is outlined below:

- where applicable, financiers provide grower finance to Grower Investors for investment in a Scheme;
- Grower Investor contributions were initially held on trust in an 'application account' by the RE / Manager / Trustee (i.e. WFL) in accordance with the Scheme constitution. Once Grower Investor applications were accepted (i.e. a forestry Interest had been issued) funds were transferred to another WFL or subsidiary bank account;
- ultimately these funds would be paid into WFL's general operating account. Importantly, section 601FC of the Act states that Scheme property (i.e. Grower Investor funds) must be clearly identified as Scheme property and held separately from property of the responsible entity and property of any other Scheme. The physical and accounting treatment adopted by WFL in this regard is a matter still under review by the Administrators;
- depending on the Scheme structure, the Grower Investor would generally engage the RE / Manager / Trustee who in turn would make arrangements with a manager or representative (often a subsidiary of WFL), who would oversee certain aspects of the plantation throughout its life; and
- in some Schemes it was the manager's role to source and purchase the land, administer and finance the Scheme, while in other instances it was the role of the RE / Manager / Trustee.

9.4.1 COMINGLING OF FUNDS

As noted above, Grower Investor contributions were initially held on trust in an application account, but ultimately were transferred via a WFL subsidiary to a general WFL bank account. For example, with the 2010 Scheme, once grower applications were accepted (i.e. a forestry interest had been allocated) these funds were transferred to WFIM. The funds were then paid to WFL to undertake forestry services on the subsidiary's behalf.

Accordingly, Scheme funds were comingled with WFL's general operating funds and there was no accounting for the use of Grower Investor funds on a Scheme by Scheme basis. The RE / Manager / Trustee was contractually responsible for all maintenance and funding requirements after inception should the initial fees not be sufficient to cover costs.

The transfer of all Grower Investor application monies to the RE / Manager / Trustee meant that WFL was able to use the pooled funds for a variety of purposes. In other words, the funds were not segregated or quarantined for specific Scheme purposes and expenses.

We continue to investigate whether this use of application monies was compliant with relevant Scheme constitutions and legislation.

9.5 RESPONSIBLE ENTITY DUTIES

The RE of a Scheme has a number of ongoing obligations which extend for the life of the Scheme, including the planting, maintenance and harvesting of plantation assets. According to s601FC of the Act, the statutory duties of the responsible entity include, but are not limited to, the duty to:

- act honestly;
- exercise the degree of care and diligence that a reasonable person would exercise if they were in the responsible entity's position;
- act in the best interests of the members and, if there is a conflict between the members' interests and its own interests, give priority to the members' interests;
- treat the members who hold interests of the same class equally and members who hold interests of different classes fairly;
- not make use of information acquired through being the responsible entity in order to:
 - gain an improper advantage for itself or another person; or
 - cause detriment to the members of the scheme;
- ensure that the scheme's constitution meets the requirements of sections 601GA and 601GB;

- ensure that the scheme's compliance plan meets the requirements of section 601HA;
- comply with the scheme's compliance plan;
- ensure that scheme property is:
 - clearly identified as scheme property; and
 - held separately from property of the responsible entity and property of any other scheme;
- ensure that the scheme property is valued at regular intervals appropriate to the nature of the property;
- ensure that all payments out of the scheme property are made in accordance with the scheme's constitution and this Act; and
- report to ASIC any breach of this Act that:
 - relates to the scheme;
 - has had, or is likely to have, a materially adverse affect on the interests of members as soon as practicable after it becomes aware of the breach; and
 - carry out or comply with any other duty, not inconsistent with this Act, conferred on the responsible entity by the scheme's constitution.

9.6 POTENTIAL BREACHES OF RE DUTIES

The Administrators have commenced investigations into potential breaches committed by the RE / Manager / Trustee in respect of the Schemes. Concluded views on the matters identified below are yet to be made due to the complex legal issues involved. As noted in section 11.3 of this Report, we have received correspondence from Macpherson and Kelly Lawyers (**M+K Lawyers**) representing a number of Grower Investors who are claiming that a number of significant breaches of the Act have been committed.

Matters that require further investigation include:

- whether the explanatory PDS issued in connection with the Schemes satisfied disclosure obligations;
- any potential misleading or deceptive conduct engaged in by WFL, the directors or officers;
- the potential non-disclosure of material information in regards to the viability of Schemes, noting in particular certain issues with the capital raising for the 2010 Scheme;
- involvement of the role of the auditor, Armstrong Partners, who had an investment in a Scheme of the Willmott Group; and
- the obligation of the RE to hold the project property on trust for Grower Investors in accordance with section 601FC(2) of the Act.

9.7 WILLMOTT FORESTS PREMIUM FORESTRY BLEND PROJECT - 2010 PROJECT

Issues that have been identified in relation to the 2010 Scheme include:

- whether funds were held in trust accounts in accordance with section 601FC(2) of the Act;
- the legality of the transfer of Scheme funds between Willmott Group entities;
- whether land was acquired and allocated to the 2010 Scheme; and
- whether funds raised in the 2010 Scheme were disbursed appropriately.

Under the 2010 PDS, WFL was required to pay to the Manager under the Land Sourcing and Forestry Services Agreement a 'land procurement and establishment fee' of \$5,000 per forestry interest to be paid out of project property. WFIM is the Manager of the 2010 Scheme, which in turn engaged WFL and external contractors to provide, or procure the provision of, all forestry services in connection with the Scheme.

These matters require further investigation.

9.8 INDEPENDENT EXPERT REPORT

Poyry was engaged by the Administrators on 7 December 2010 to undertake a technical review and verification of the Willmott Group's Scheme valuations and provide a viability analysis of all Willmott Group forestry projects. This included an independent expert perspective on the assumptions of the plantation cash flow models prepared by the Willmott Group and form an opinion on the viability of the Schemes.

On 19 January 2011 the Administrators received the *Viability Analysis of the Willmott Forestry Projects* report from Poyry.

Poyry classified the Schemes into three categories:

1. Long-term viable Schemes – those which are clearly viable in the long term, have a positive NPV calculation and make commercial sense to be maintained by way of additional voluntary Grower Investor contributions;
2. Potentially viable Schemes – those which may be viable or non-viable in the long term dependent upon changes to the yield / price / log grade of +/- 25% and whether sufficient further investment is achieved by way of additional voluntary Grower Investor contributions; and
3. Long-term non-viable Schemes – those which are clearly unviable in the long term, have no apparent commercial merit in maintaining, and where the project is estimated to have a negative NPV.

The viability of the various projects heavily depends upon plantation maintenance requirements, actual growth rates of trees and actual sale prices achieved in the future.

Poyry concluded that total Grower Investor contributions with a net present value of circa \$123m are required if the Schemes are to be maintained through to final harvest. These costs are broken down as shown in the table below:

9.8.1 ESTIMATED COSTS TO COMPLETE PLANTED SCHEMES

Item	NPV of cost (AUD 2010) (\$000)
Maintenance costs	(57,732)
Overheads	(31,330)
Administration costs	(2,283)
Fees to old RE	(4,659)
Fees to new RE	(11,112)
Total	(107,116)
Growers Contribution, which includes a 15% contingency	(123,183)

It must be noted:

- these costs are based on a variety of assumptions and estimates and are subject to change; and
- In absolute terms (i.e. not in current monetary values) Grower Investor contributions of \$336.7m would be required.

9.8.2 NET PRESENT VALUE CALCULATIONS – SCHEME VIABILITY

Poyry used a series of NPV calculations in completing a sensitivity analysis of the viability of the Schemes. NPV refers to the value today of all future expected cash inflows and outflows, taking into account inflation and other expected changes to costs and prices. Various discount rates have been used by Poyry to estimate the NPV of future expected cash flows.

Due to the long-term nature of the plantation investments, the NPV of the cash flow estimates is strongly influenced by the discount rate applied to the calculations. Poyry have applied discount rates of 11%, 13% and 15% to their sensitivity analysis of pre-tax cash flows.

The Poyry sensitivity analysis is summarised below under two scenarios - 'conservative case' and 'better case'. In short, under a 'conservative case' up to 88% of Schemes may not be viable, while under a 'better case' 18% of Schemes may not be viable.

Conservative Case Scenario – Viable/Non-Viable at Alternative Discount Rates

NPV Discount Rate	Net Stocked Area - Hectares					
	Viable		Non-Viable		Total	
11%	38,072	72%	15,136	28%	53,208	100%
13%	17,387	33%	35,821	67%	53,208	100%
15%	6,648	12%	46,560	88%	53,208	100%

The conservative case scenario assumes:

- Potentially viable Schemes (currently with positive NPVs) incurring a decrease in yield/price/log grade of 25% or more, rendering them non-viable;
- Potentially non-viable Schemes not achieving an increase in yield/price/log grade of at least 25% and/or Grower Investors required funds not being achieved rendering them non-viable; and
- Viable Schemes being those that have a current positive NPV and with additional Grower Investor contributions would be commercial to maintain.

Better Case Scenario – Viable/Non-Viable Areas at Alternative Discount Rates

NPV Discount Rate	Net Stocked Area - Hectares					
	Viable		Non-Viable		Total	
11%	43,883	82%	9,325	18%	53,208	100%
13%	39,404	74%	13,804	26%	53,208	100%
15%	25,971	49%	27,237	51%	53,208	100%

The better case scenario assumes:

- Potentially viable Schemes (currently with positive NPVs) not incurring a decrease in yield/price/log grade of 25% or more;
- Potentially non-viable Schemes achieving an increase in yield/price/log grade of at least 25% and further investments are made by Grower Investors, therefore making the Schemes viable; and
- Non-viable Schemes, being those that are clearly unviable and that have no commercial merit in maintaining regardless of changes in yield/price/log grades. These are Schemes that would require an increase of greater than 25% of net proceeds to generate a positive NPV calculation.

The viability analysis heavily depends upon plantation maintenance requirements, actual growth rates of trees and actual sale prices achieved in the future.

A detailed summary table of the net cash flow results of the Poyry analysis per Willmott Scheme is provided in Appendix G.

10. EXPRESSIONS OF INTEREST CAMPAIGN

Shortly following our appointment, we commenced an EOI campaign involving the following steps:

- review of the RE / Manager / Trustee role and marketable assets;
- formulated an EOI process and timeline;
- devised and formulated an advertising campaign, directed at both domestic and international markets;
- identified and targeted potential interested parties with relevant industry expertise;
- attended to and recorded EOI responses and further queries;
- established a data room for the conduct of preliminary due diligence;
- undertook continual review and updates of both financial and Scheme information in the data room;
- held discussions with each of the interested parties involved in the EOI process and attended to meetings with a number of parties; and
- commenced final dialogue with qualified bidders.

The first public stage of the EOI process commenced with advertisements in *The Australian* and *The Australia Financial Review* beginning on 12 November 2010 calling for EOI's in:

- assuming the obligations of RE / Manager / Trustee for any or all of the Schemes;
- restructure of the Willmott Group's affairs or its business; or
- recapitalisation of the Willmott Group.

Following EOI received from the advertising campaign, a data room was opened on 3 December 2010, with thirteen interested parties granted access. All were required to execute a confidentiality agreement prior to being able to participate in the process.

On 16 December 2010 we received first round, indicative non-binding proposals from eight interested parties. The second stage data room was subsequently opened on 22 December 2010, containing additional comprehensive financial and Scheme material. To complete further due diligence, interested parties awaited a viability analysis on all forestry projects, as prepared by an independent expert, Poyry (see section 9.8 above). This was provided to all data room participants on 19 January 2011.

10.1 OFFERS

Binding offers were due to be submitted to the Administrators on 2 February 2011. At this time we received three conditional, indicative, non-binding proposals from interested parties and one binding offer from HVP as described below.

The three non-binding proposals included further conditions in relation to obtaining finance, requests for further due diligence periods (with no guarantee of a future offer) and further precise information regarding the Willmott Group. We note that none of the bidders were willing to fund the costs of managing the Schemes during the period they sought to shore up their offers. These conditions were considered unacceptable to the Administrators as the potential time delays were significant with no certainty of outcome and there are insufficient funds to continue to manage the Schemes.

Due to the non-conforming nature of the three proposals as well as the absence of a reasonable proposition to take over WFL's role as RE / Manager / Trustee of the Schemes, the Administrators concluded that no acceptable RE / Manager / Trustee has become available through the EOI process. An alternative course of action with respect to the Schemes must now be commenced to achieve the best possible outcome for Grower Investors (see section 10.2 below).

As many details in this matter are confidential and commercially sensitive, we are not able to provide further particulars of the EOI process and the interested parties involved. The offers received have been discussed at length with both the COC and Growers Groups.

10.1.1 HANCOCK VICTORIAN PLANTATIONS PTY LTD

On 2 February 2011 the Administrators received a binding proposal from HVP noting its interest in particular Schemes that are situated on HVP land. It does not take into consideration those Schemes that are not situated on HVP land. Furthermore, the offer does not provide for a new RE / Manager / Trustee for any Schemes (including those situated on HVP land).

The HVP proposal entails collapsing the separate Schemes involved to create one Scheme which solely operates on HVP land. This proposal seeks to provide some benefit to Grower Investors by deferring reimbursement for associated Scheme costs until harvest. The proposal would be complex, time consuming and therefore costly to implement.

The Administrators met with representatives from HVP on 3 February 2011 to discuss this offer and entered into negotiations in respect of an alternative proposal, to achieve the best possible outcome for Grower Investors involved.

Further negotiations resulted in a revised proposal received on 16 February 2011. HVP presented a binding offer to the Administrators proposing to purchase all of the trees occupying HVP land subject to the full surrender and termination of all associated leases and sub-leases on such land. Willmott Group senior forestry staff, on the request of the Administrators, have reviewed the valuation assumptions behind this offer, and we shall further engage Poyry to conduct an assessment of the validity of the valuation assumptions on which the offer is calculated.

Negotiations with HVP and the Receivers and Managers (who are claiming certain rights in respect of the leasehold interest) are continuing. Any concluded agreement with HVP will be subject to the Court's consent.

10.2 FUTURE STRATEGY FOR WILLMOTT SCHEMES

Following the outcome of the EOI process as described above, the Administrators met with the COC on 3 February 2011 to advise that no unconditional and binding offers were received that were capable of acceptance. The following process regarding the future of the Willmott Schemes was then agreed with the COC:

1. Administrators to seek to realise Scheme assets for the benefit of Grower Investors, which will require:
 - winding up the Schemes; and
 - negotiating with HVP and FNSW to preserve Grower Investor interests in plantations situated upon leasehold land.
2. Obtain power of sale for property:
 - for Registered Schemes, the underlying constitution to be amended using statutory power, with consent of the Court; and
 - for Unregistered Schemes, the investment deed or other governing document will require amendments using contractual powers or by consent if possible, or alternatively by seeking directions from the Court. For those Schemes which do not have an investment deed or other governing document, it may be necessary for relevant agreements to be terminated to enable a sale to proceed.
3. Once power of sale is obtained, to maximise the value for all creditors and Grower Investors by initiating a sale campaign in relation to all land and trees in conjunction with the Receivers and Managers, by the most appropriate method. Secured creditors will require payment in full to release titles for the land.

4. On completion of the sale process, and with approval of the Court, net proceeds available for distribution to Grower Investors will be allocated between the various Schemes having regard to the value of the relevant forestry rights.

FNSW has provided its undertaking not to terminate the relevant leases upon the liquidation of the Willmott Group. The Administrators are in the process of obtaining the consent of FNSW to include WFL's leasehold interest in FNSW land to be included in the sale process. It is intended that the leasehold interest would be sold in conjunction with the trees located on the land. Net proceeds referable to those trees would be allocated to the relevant Grower Investors.

The Administrators are negotiating with the other external lessor, HVP, for the sale of the trees located on HVP land to HVP and a surrender of the relevant leases. It is intended that net proceeds referable to the trees would be allocated to the relevant Grower Interests.

11. OFFENCES, VOIDABLE TRANSACTIONS AND INSOLVENT TRADING

11.1 LIMITATION ON INVESTIGATIONS

Preliminary investigations have been performed by the Administrators into the business, affairs and financial circumstances of the Willmott Group, as well as the conduct of its directors and officers. It should be noted that our investigations to date have been limited for the following reasons:

- the majority of the Willmott Group's staff were terminated following the appointment of the Receivers and Managers, resulting in prolonged and difficult information gathering;
- restricted availability of the remaining Willmott Group staff due to ongoing operational demands; and
- the limited timeframe by which to undertake investigations and report to creditors, given the size and complexity of both the trading operations and Scheme structures, as well as the vast scale of Willmott Group books and records to review.

Background information on which we have based our investigations and opinions in this Report have been obtained from the following sources:

- discussions with directors, officers and key staff of the Willmott Group;
- RATA's for each Willmott Group entity prepared by the directors of those entities;
- detailed questionnaires prepared by the directors in respect of each Willmott Group entity;
- ASIC records relating to the Willmott Group and any related entities;
- publicly available ASX information;
- audited annual reports published by the Willmott Group;
- accounting and database information systems used by the Willmott Group; and
- review of the Willmott Groups' books and records, including the financial statements and management accounts.

Investigations conducted by an Administrator centre on identifying any matters that a liquidator may seek to pursue for recovery, either through voidable transactions or compensation in the event the company is wound up. Funds that may be recovered by a liquidator would become available for distribution to creditors of the company concerned.

Creditors should note that potential recoveries available to a liquidator would not be available to a Deed Administrator should creditors vote to accept any DOCA proposal. As at the date of this Report, a DOCA proposal has not been put forward for consideration.

A Liquidator is required to perform more substantial, detailed and lengthy investigations than an Administrator. As Administrators we have investigated the below matters to the extent possible in the given time frame and shall continue to review all matters discussed should the entities in the Willmott Group be wound up (i.e. placed in liquidation).

The investigations outlined in the body of this Report largely relate to WFL, the principal operating entity and holding company of the Willmott Group. For information and findings on other Willmott Group entities, please refer to Appendix F.

11.2 BOOKS AND RECORDS

Pursuant to section 286 of the Act, a company must keep written financial records that correctly record and explain its transactions, financial position and performance, and enable true and fair financial statements to be prepared and audited. Financial records must be kept for seven years after the transactions covered by the records are completed.

Failure to maintain books and records may give rise to a presumption of insolvency pursuant to section 588E of the Act. This presumption may be relied upon by a Liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to Part 5.7B of the Act.

From the date of our appointment the Receivers and Managers have been in control of all books and records of the Willmott Group, which is their entitlement pursuant to the Banking Syndicate's security. Upon our appointment we urgently commenced negotiations to obtain full access to the books and records which resulted in an 'Access Deed' (**Deed**) being executed by both the Receivers and Managers and the Administrators on 24 November 2010. This Deed specifies how the Administrators are to obtain access to and gather information from the books, computer systems and employees of the Willmott Group.

We have since met with WFL staff on numerous occasions as well as conducted a review of the financial data contained within the 'Finance One' accounting system. All Grower Investor related information has been obtained from the 'Forestry Investors Database Operations' system (**FIDO**).

From our investigations to date we note the following:

- The Willmott Group prepared formal accounts on a half-yearly and yearly basis;
- The last annual audited accounts for the Willmott Group were prepared as at 30 June 2009;
- The last unaudited annual accounts were prepared as at 30 June 2010;
- The last audited half-yearly Scheme accounts were prepared as at 31 December 2009;
- Draft unaudited Scheme accounts were last prepared to 30 June 2010;
- Management accounts were prepared on a monthly basis, with draft accounts most recently available to 6 September 2010 (as requested by the Administrators); and
- The Willmott Group maintained filing and archive systems both on-site at its head office and externally.

The Administrators are continuing their investigations into whether any breaches of the Act have occurred in relation to the maintenance of proper books and records, including:

- s286 Failure to keep proper financial records;
- s344 Failure to take all reasonable steps to comply with financial records reporting requirements; and
- s180 Requiring officers to exercise a reasonable degree of care and diligence in the exercise of their powers and discharge of their duties.

We have identified a number of issues in respect of the accounting treatment adopted by the Willmott Group which are discussed in section 6 of this Report.

We have concluded that documents and primary books and records appear to have been adequately maintained.

11.3 CLASS ACTION

M+K Lawyers have issued correspondence to both the Receivers and Managers and the Administrators on behalf of a number of Grower Investors, seeking damages and compensation for loss suffered from alleged unlawful conduct of:

- the directors of WFL; and
- WFL in its capacity as RE / Manager / Trustee of various Schemes from 2007 and onwards.

M+K Lawyers have made the following allegations in their correspondence:

- WFL, under the control of its directors, engaged in misleading or deceptive conduct in breach of the Act and ASIC's rulings;
- There was non-disclosure of material information relevant to Grower Investors, particularly in relation to material concerning the viability of the Schemes;
- Statutory duties were breached by WFL as RE / Manager / Trustee under section 601FC of the Act; and
- The failure to comply with the disclosure obligations as RE / Manager / Trustee in connection with PDS as required by the Act.

M+K Lawyers have advised that they are yet to finalise the quantum of their clients' claims, though the amount will be calculated on the sum of the net losses suffered, all interest and establishment fees, any interest and costs on defaulting loans and the incidental and legal costs of pursuing their clients' claims. Creditors should note that pursuant to Section 440D of the Act, a legal action cannot be commenced against a company under administration without the written consent of the Administrator, or the leave of the Court.

These allegations and the prospect of these claims will be further investigated should WFL be placed into liquidation.

11.4 AUDITOR INDEPENDENCE

Armstrong Partners have been the appointed auditor of WFL since 9 July 1999, with the last audited financial accounts being finalised and signed off by David Armstrong as at 30 June 2009. The audit of the 30 June 2010 financial accounts was underway at the time of our appointment.

Section 290 of *APES 110 Code of Ethics for Professional Accountants* (**APES 110**) and the Act codify the independence requirements for auditors. APES 110 stipulates that independence of mind and independence of appearance are critical for the proper execution of the audit function.

Preliminary investigations into the role of WFL's auditor have identified several threats to independence which are outlined below:

a. Self-Interest Threat

Auditor self-interest is defined in APES 110 as a threat which may occur as a result of the financial or other interests of an auditor personally, or interests of an immediate or close family member to the auditor, in the entity being audited.

Evidence of potential auditor self-interest threats have been identified from the following facts:

- The auditor's investment of two hectares of Woodlots (\$23,900) which form part of the Willmott Forests 1989 – 1991 Scheme;
- The auditor held a loan of \$21,900 from the Willmott Group to fund his investment in the Willmott Forests 1989 – 1991 Scheme; and
- The Willmott Forests 1989 – 1991 Scheme was subject to audit by Armstrong Partners.

b. Self-Review Threat

APES 110 defines self-review threat as that which may occur when a previous judgment needs to be re-evaluated by the auditor responsible for that judgment in the first case.

As well as being engaged as the auditor, there is evidence that the Willmott Group's Board also relied on Armstrong Partners for separate accounting policy assessment, implementation practices and advice, including the following matters:

- Classification of the PINES financial instrument (refer to section 6.2.2(f) for background);
- The scope of land valuations for financial statement disclosure purposes; and
- Analysis of impairment indicators for land and standing timber asset classes.

These identified accounting judgements have material affects on the Willmott Group's financial reports, further discussed in section 6. As such, the auditor consulting on these matters could be seen as having competing interests which may be considered inconsistent with the proper exercise of auditor independence in regard to self-review threats.

We are not aware of the disclosure of the identified auditor independence threats and are of the view that these threats may constitute a breach of audit and professional independence obligations.

c. Audit Rotation

Audit rotation requirements for listed entities are contained in Division 5 of Part 2M.4 of the Act.

Specifically, the Administrators have considered section 324DA(1) of the Act, which states that an individual who has played a significant role in the audit of a particular client for five successive financial years is not eligible to continue to play a significant role unless the individual has not played such a role for at least two successive financial years.

The following table summarises the signatories to the Willmott Group's audited financial accounts in recent years:

Financial Year	Signatory 1	Firm
2009	David Armstrong	Armstrong Partners
2008	David Armstrong	Armstrong Partners
2007	Roderick C McKenzie, Partner at Armstrong Partners	Armstrong Partners
2006	David Armstrong	Armstrong Partners
2005	David Armstrong	Armstrong Partners
2004	David Armstrong	Armstrong Partners
2003	David Armstrong	Armstrong Partners
2002	David Armstrong	Armstrong Partners

As noted above, Mr David Armstrong appears to have only surrendered his role as primary auditor for one of the two years required by ASIC under section 324DA(1) of the Act. However, we note that ASIC has limited powers to modify the auditor rotation obligations by extending the five year eligibility period by up to two years. In this regard we note the directors' report in the WFL FY08 Financial Report which stated:

"With the consent of the Board of Directors, the Company's auditors, Armstrong Partners, sought and have been granted ASIC consent to substitute Mr David Armstrong as lead auditor of Willmott Forests Limited. The application resulted from Mr Roderick McKenzie, previously lead auditor to the company, suffering a serious illness which prevented him continuing to carry out his audit functions."

We have yet to sight ASIC's consent to the above. In the minutes of the Audit and Risk Management meeting held on 18 June 2010 it was indicated that ASIC was interested in the rotation of Mr Armstrong as auditor. Our investigations in relation to the auditor's independence threats are continuing.

11.5 DECLARATION BY ADMINISTRATOR - INDEMNITIES AND RELEVANT RELATIONSHIPS

Under Section 436DA of the Act an Administrator must provide a declaration to creditors identifying any prior relevant relationship and indemnities.

Our investigations have identified a payment to the former Administrator, Mr Avitus Fernandez of Fernandez Partners, in the amount of \$200,000 paid in the hours immediately following the appointment of the Receivers and Managers on 6 September 2010.

We note that Mr Fernandez did not disclose this payment in his *Declaration of Independence, Relevant Relationships and Indemnities* to creditors.

The non-disclosure of this indemnity received by Mr Fernandez may constitute a breach of section 436DA which is an offence under the Act. We also note that legal proceedings have been instigated by the Receivers and Managers to recover these funds received by Mr Fernandez.

11.6 OFFENCES

Administrators are required to complete and lodge a report with ASIC pursuant to section 438D of the Act where it appears:

- a past or present officer of a company may have committed an offence;
- money or property has been misapplied or retained; or
- a party is guilty of negligence, default, breach of duty or breach of trust in relation to a company.

We have lodged a report with ASIC in accordance with section 438D of the Act which covers the issue raised in section 11.5 of this Report. We intend on preparing a further section 438D report pertaining to the matters outlined in sections 11.3 and 11.4.

Creditors should also be aware that any report lodged pursuant to section 438D (or an investigative report lodged by a liquidator pursuant to section 533 of the Act) is not available to the public.

We have held discussions with ASIC representatives on numerous occasions since our appointment and continue to liaise with them on all relevant matters pertaining to the Willmott Group.

For general information about what offences may be identified by an administrator, please refer to the Appendix I for the IPAA information sheet entitled "*Creditor Information Sheet: Offences, Recoverable transactions and Insolvent Trading*".

11.7 OUTSTANDING OR PREVIOUS WINDING UP APPLICATIONS

The Administrators' review of ASIC records did not disclose any winding up applications filed against any of the Willmott Group entities prior to the appointment of Administrators.

11.8 VOIDABLE TRANSACTIONS

The Act requires an administrator to specify whether any transactions appear to the administrator to be potentially voidable in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act. This issue is relevant to creditors if they are being asked to choose between a DOCA or liquidation, given that voidable transactions are only able to be recovered in a liquidation scenario. At the date of this Report, a DOCA proposal had not been put forward in respect of any Willmott Group entities.

Our investigations into the affairs of the Willmott Group have identified certain potentially voidable transactions where a liquidator may be able to pursue for recoveries, these are further discussed below.

11.8.1 UNFAIR PREFERENCES – s588FA

In accordance with section 588FA of the Act, if a company is placed into liquidation, certain payments to creditors may be recoverable as voidable transactions if the creditor has received more than they would have otherwise received in the winding up of the company.

A liquidator is typically only able to recover unfair preference transactions made in the 6 months preceding the date of administration. If the transaction was with a related party this time frame extends to 4 years.

For an unfair preference to exist it must be established that:

- the company in liquidation was insolvent at the time of the transaction or became insolvent as a result of that transaction; and
- the creditor or a reasonable person in the creditor's position had reasonable grounds to suspect that the company was insolvent.

Through our enquiries (and as confirmed by officers and staff of the Willmott Group) we have not identified any of the following indicators that would typically suggest unfair preference payments may exist:

- formal or informal payment arrangements in place with creditors or suppliers;
- payment plans in place in respect of taxation or other statutory debts; or
- written demands or threats of legal action received within the six month period prior to our appointment.

Nevertheless, our investigations to date have revealed potential unfair preference payments made by WFL to a professional advisor totalling more than \$50,000 within the 6 months prior to administration. This professional advisor would have likely had detailed knowledge of the financial affairs of the Willmott Group and as such should have been aware of WFL's solvency position and the question of its ability to continue as a going concern. The potential unfair preference payments are outlined below:

Paying Entity	No. of Creditors	Total amount of transactions	Payment period
WFL	1	\$50,776	31/03/10 to 16/08/10

Should WFL be placed into liquidation, our investigations into the payments to this advisor will continue, particularly in regards to the reasonableness of these payments and any defences available should these voidable transactions be pursued.

Potential defences for a creditor should a liquidator seek to recover preferential payments would be:

- if the creditor became a party to the transaction in good faith; and
- at the time when they became a party:
 - the creditor had no reasonable grounds for suspecting that the payor was insolvent at that time; and
 - a reasonable person in that person's circumstances would have had no such grounds for suspecting the payor's insolvency; and
- the creditor provided valuable consideration under the transaction or has changed their position in reliance on the transaction.

The Administrators have not yet formed a view as to what defences may be specifically available to the creditor in question.

This potentially unfair preference payment, as well as any other payments subsequently identified, will be further investigated and may be pursued in the case of liquidation of WFL and the other Willmott Group entities. Creditors should be aware that the costs of pursuing preference payments and other voidable transactions are a cost of the liquidation which may be considerable and the costs may outweigh the benefit in some circumstances. The liquidators will assess the commerciality of any claim before pursuing any recoveries.

11.8.2 UNCOMMERCIAL TRANSACTIONS – s588FB

An uncommercial transaction according to section 588FB of the Act involves the following elements which are to be determined by the liquidator:

- the transaction is made at a time when the subject company is insolvent; and
- it may be expected that a reasonable person in the company's circumstances would not have entered into the transaction having regard to:
 - the benefits (if any) to the company of entering into the transaction;
 - the detriment to the company of entering into the transaction;
 - the respective benefits to other parties to the transaction of entering into it; and
 - any other relevant matter.

Uncommercial transactions must be entered into during the two years prior to the commencement of the liquidation (or four years where a related party is concerned).

Preliminary investigations have revealed that a related entity of a key employee of WFL was engaged to perform services at a price significantly higher than the market rate. The identified party has potentially received uncommercial payments from WFL during the period 15 March 2010 to 31 August 2010, as outlined below.

Paying Entity	No. of Creditors	Total amount of transactions	Payment Period
WFL	1	\$331,108	15/03/10 to 31/08/10

Further investigations into the above transactions will be conducted should creditors resolve to place WFL into liquidation.

In the event that these transactions are pursued by a liquidator as voidable transactions, the net recoveries will increase the funds available to creditors in the WFL administration. It should be noted that similar defences are available as for unfair preference payments. The date of insolvency is also fundamental as to whether these transactions would be considered recoverable.

11.8.3 UNFAIR LOANS – s588FD

According to section 588FD of the Act, a loan made to a company is unfair if, and only if:

- the interest on the loan was extortionate when the loan was made, or has since become extortionate because of a variation; or
- the charges in relation to the loan were extortionate when the loan was made or have since become extortionate because of a variation.

In considering whether charges and interest are extortionate, regard must be had to the following matters:

- the risk to which the lender was exposed;
- the value of any security in respect of the loan;
- the term of the loan;
- the schedule for payments of interest and charges and for repayments of principal;
- the amount of the loan; and
- any other relevant matter.

Preliminary investigations have not yet identified any unfair loans made by an entity in the Willmott Group. Further investigations into loan transactions shall be completed should the Willmott Group be placed into liquidation.

11.8.4 ARRANGEMENTS TO AVOID EMPLOYEE ENTITLEMENTS – s596AB

Section 596AB of the Act outlines that a person or company must not enter into a transaction which prevents an employee from the recovery of their entitlements or significantly reduces the amount of entitlements that they may recover. Should an employee suffer a loss in this regard, a liquidator may seek to recover compensation from that person or company entering into the transaction to avoid the entitlement owed. There is no time limit on when the transaction must have occurred and it is only necessary to satisfy the court that there has been a breach on the balance of probabilities.

Our preliminary investigations to date have not identified any transactions or actions that would constitute a contravention of section 596AB of the Act by any person. However, should WFL as the employing entity be wound up, a liquidator shall conduct further investigations in this regard.

11.8.5 UNREASONABLE DIRECTOR RELATED TRANSACTIONS – s588FDA

Pursuant to section 588FDA of the Act, a transaction is considered an unreasonable director related transaction if it occurs within four years prior to appointment and:

- the transaction is a payment, transfer of property, issue of securities or incurring of an obligation by the company;
- made by the director or close associate of the director; and
- that a reasonable person in the company's circumstances would not have entered into having regard to the benefit or detriment to the company or other parties.

Any such transaction may be set aside should a liquidator be able to establish the merits of an unreasonable director related claim and if the pursuit of such claims brings a beneficial return to creditors of the Willmott Group.

Listed in Appendix F are the directors of each Willmott Group entity. We have yet to identify any shadow or de facto directors that may require investigation.

Section 11.13 of this Report identifies personal interests that directors of the Willmott Group have in various Schemes. We are further continuing to investigate all other director related transactions such as remuneration, bonuses and loans to assess the reasonableness of such transactions and any potential recoveries that a liquidator could pursue for the benefit of creditors.

At this stage no unreasonable director related transactions have been identified.

11.8.6 VOIDABLE CHARGES – s588FJ

A charge against assets of a company may be considered voidable by a liquidator under section 588FJ of the Act if it is created during the 6 months ending on the relation back day, being 7 March 2010, except if:

- the company is solvent after the charge; or
- to the extent of subsequent advances.

From our investigations to date, and information contained on the ASIC register, we currently believe that there are no charges against the Willmott Group which may be considered voidable.

11.9 INSOLVENT TRADING

Section 588G of the Act provides that a company's director(s) has a positive duty to prevent insolvent trading by not incurring debt when there are reasonable grounds for suspecting that the company will be unable to pay its debts as and when they fall due. Section 588M of the Act provides that a liquidator is able to recover 'damages' from the director(s) of an insolvent company, in an amount equal to the loss or damage suffered by the company as a result of a breach of the director's duty.

A director can therefore be personally liable for debts incurred when a company is insolvent or becomes insolvent as a result of the transaction or if there are reasonable grounds to believe that the company would become insolvent.

Section 95A of the Act provides the following definition of 'solvency' and 'insolvency':

- (1) a person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable; and
- (2) a person who is not solvent is insolvent.

In deciding whether there are reasonable grounds to suspect insolvency courts will apply an objective approach and judge directors on the basis of the director of ordinary competence. Courts rely upon the meaning of "suspicion of insolvency". In order for a suspicion to exist there must be more than merely an idle wondering, there must be a positive feeling of actual fear or misgiving. Furthermore, a "reason to suspect" that a fact exists involves more than a reason to consider the possibility of its existence. Rather, the phrase envisages that a reasonable director would, if in the position of a creditor, have a concern that the debtor company was unable to pay its debts.

The primary methods of testing solvency are the *Cashflow Test* and the *Balance Sheet Test*, both examined below.

The Administrators are required to consider the solvency of each of the Willmott Group of companies. However, as the companies within the Willmott Group are interdependent on one another and primarily reliant on the resources of WFL (noting various intercompany loans owing to and from WFL at date of appointment), we have considered the solvency of the Willmott Group as a whole.

11.9.1 KEY EVENTS LEADING TO INSOLVENCY

The following timeline identifies the key events that led to the appointment of the Receivers and Managers and the Voluntary Administrator.

Date	Event
March 2009	Willmott Group enters into two debt facilities totalling \$135m with its Banking Syndicate.
April 2009	Timbercorp enters external administration.
May 2009	Great Southern enters external administration.
June 2009	WFL achieves FY09 Scheme sales of \$66.5m, a reduction of \$30.8m (or 32%) compared with FY08 Scheme sales of \$97.3m.
October 2009	At the Board meeting on 6 October 2009 the 'MIS forecasts' model was tabled which predicated, inter alia, 2010 Scheme sales of \$80m, Timberland Fund sales of \$10m both by 30 June 2010 and a capital raising of \$20m in December 2009 and \$30m in December 2010. The model also predicted a number of covenant breaches of the Willmott Group's Leverage ratio (total debt / EBITDA) at 31 December 2010 and 31 December 2011.
November 2009	<p>On 2 November 2009 WFL announced the completion of a \$20.5m capital raising. WFL advised that proceeds from the capital raising were to be used to fund growth.</p> <p>On 11 November 2009 a financial model 'MIS Forecasts Updated 30th October 2009' was presented to the Board and predicted, inter alia, 2010 Scheme sales of \$80m, no FY10 Timberland Fund sales and a capital raising of \$30m in September 2010. The financial model also predicted future covenant breaches, including the Leverage ratio at 30 June 2010, 31 December 2010, 31 December 2011 and 31 December 2012 and an Interest Cover ratio (EBIT / Interest Expense) breach at 31 December 2010.</p>
December 2009	<p>On 17 December 2009 the 'MIS strategic model' was presented to the Board and projected future covenant breaches of the Leverage ratio at 31 December 2011 and 31 December 2012. The forecast predicted, inter alia, \$80m of sales for the 2010 Scheme and \$5m of Timberland Fund sales by 30 June 2010 and a capital raising of \$30m in September 2010. A sales and marketing report presented to the Board predicted Scheme sales of \$70m in FY10.</p> <p>A draft Board paper titled "2010 PDS Issues – AFSL & Banking Covenants" prepared by management in relation to a proposed change in income recognition identified that it would lead to a Banking Syndicate covenant breach (Leverage Ratio) at 31 December 2010 unless cash resources were used to reduce debt. Such action was said to have compliance implications for WFL's AFSL (as current assets were required to remain greater than current liabilities). If the change was adopted, the paper recommended the Board approve the realisation of certain non-current assets to enable their reclassification to current assets which would to satisfy the AFSL requirement. The Board contemplated a change in income recognition policy. However no income recognition change was adopted.</p> <p>The Board also received an update on the 2010 Scheme sales from a management and marketing report which noted that, as there was not yet an external Grower Investor finance facility in place, the Product Ruling would only cover Grower Investors paying cash or financed by the Willmott Group. The update also considered whether to move to a new model adopted by a competitor, FEA, whereby Grower Investor contributions' were to be held on trust and only used to fund the Scheme and subject to an audit.</p>
February 2010	On 9 February 2010 the 'MIS strategic model' was updated and presented to the Board

Date	Event
	<p>and continued to predict future Leverage ratio covenant breaches at 30 June 2010, 31 December 2011 and 31 December 2012. The Board continued to forecast, inter alia, \$80m in 2010 Scheme sales by 30 June 2010, and a capital raising of \$30m in September 2010.</p> <p>The Willmott Group engaged Gresham Partners to explore Grower Investor financing alternatives in mid February 2010.</p> <p>A report to the Board in March 2010 referring to the above meeting noted the Board's <i>"lack of understanding of the margin on woodlot sales, particularly in the context of the impact on cash flows of possible shrinking margins. The Board requested a margin analysis demonstrating a profile or trend over the last 5 years to date"</i>.</p>
March 2010	<p>On 22 March 2010 a document titled 'Business Restructure Planning' was presented to the Board with the purpose to match long term debt / capital with long term assets and reducing the Willmott Group's reliance on major trading banks. The document also stated that the two goals of the restructure included debt reduction of \$55m and cash flow positive operations.</p>
April 2010	<p>FEA enters external administration.</p> <p>Board meeting on 29 April 2010 receives sales and marketing update predicting 2010 Scheme sales to be in the region of \$40m to \$60m. A Sales and Marketing Report suggests the size of the market had been downgraded as:</p> <ul style="list-style-type: none"> • dealer groups would no longer include Agri products following the collapse of FEA; • Grower Investor finance was not in place; and • more stringent focus of independent researchers on banking covenants. <p>The Willmott Group's MIS Strategic Model, now titled 'Willmott Forests Limited – Company Forecast (Bank West)' was presented to the Board and continued to forecast future covenant breaches and Scheme sales of \$80m in FY10.</p>
May 2010	<p>Rewards Group Limited enters external administration.</p> <p>In a letter dated 14 May 2010, ASIC requests information from WFL under section 601F of the Act in relation to compliance with its AFSL. WFL's response on 26 May 2010 included:</p> <ul style="list-style-type: none"> • a declaration of solvency signed by Marcus Derham; • a declaration of Scheme compliance signed by Marcus Derham; • an NTA calculation as at 14 May 2010; • cash needs projection to 31 July 2010; and • balance sheet and year to date profit and loss as at 31 March 2010. <p>On 24 May 2010 WFL announces to the market that an external Grower Investor finance facility had been secured for the 2010 Scheme. WFL does not disclose that the finance was conditional on Scheme sales in excess of \$40m being achieved.</p> <p>On 28 May 2010, a document titled 'Strategic Forecast Scenarios – Comparative Summary' was presented to the Board. Under the scenario of \$50m of 2010 Scheme sales in FY10, it was noted that "cash ran out" in August 2010 (Grower Investor finance not in place) or December 2011 (Grower Investor finance in place). It was also noted under this scenario that at 30 June 2010, 31 December 2010, 30 June 2011 and 31 December 2011, the Willmott Group would not meet a number of its banking covenants.</p>

Date	Event
	The Board also resolved to approve a recommendation not to participate in the rights issue to shareholders of ETL.
June 2010	<p>The Board meeting on 18 June 2010 discussed ASIC's interest in the rotation of Mr Armstrong as auditor.</p> <p>The Willmott Group continues to accept Grower Investor applications for the 2010 Scheme. The final quantum of applications (\$19.6m) at 30 June 2010 was insufficient to meet the minimum take up rate required by the external Grower Investor finance provider, Merricks Capital, which meant the Willmott Group would have to self-fund Grower Investor loans.</p>
July 2010	<p>On 1 July 2010 WFL requests a trading halt due to lower FY10 sales and the outlook for FY11.</p> <p>On 5 July 2010, WFL announced to the market the continued trading halt, the lower than expected FY10 sales, that dividends were unlikely to be paid and that the Board was undertaking immediate action to address current challenges including reducing the cost base, debt reduction and the consent of the Banking Syndicate to any revised capital management plan. On the same day the Willmott Group held discussions with the Banking Syndicate and advised that, given the lower than expected 2010 Scheme sales, its external Grower Investor financier was not proceeding with funding and that WFL would now self-fund Grower Investor loans. The Willmott Group also foreshadowed a restructuring of its business including debt reduction to be presented on 20 July 2010.</p> <p>On 13 July 2010, the Willmott Group requested temporary waivers under its Banking Syndicate facilities until close of business 23 July 2010. The temporary waivers for events of default were sought for:</p> <ul style="list-style-type: none"> the suspension of WFL securities for a period greater than 10 business days (i.e. for the period 5 July 2010 to 14 July 2010 inclusive); and the rollover of a \$15m drawdown under Facility B which became due and payable to the Banking Syndicate on 15 July 2010 (which was originally drawn down for working capital purposes). <p>On 14 July 2010, the Willmott Group withdrew the request in relation to the proposed \$15m Rollover under Facility B. The Banking Syndicate was advised of the Willmott Group's requirement for access to all of its debt facilities (\$135m) going forward, advising that without full access the WFL Board would need to consider "solvency issues". The Banking Syndicate granted a temporary waiver to 23 July 2010 in respect of the suspension of WFL securities.</p> <p>On 15 July 2010 the Willmott Group repaid the \$15m Facility B loan in accordance with its scheduled expiry.</p> <p>On 20 July 2010, the Willmott Group met with the Banking Syndicate and presented the restructuring plan aiming to reduce debt to \$30m by mid-2011, with repayment in full by December 2012 via a number of initiatives including the sale of land holdings and other assets. The restructuring plan predicted the sale of the Murray Valley, Bombala and North Coast land holdings for a base case of \$104m via a sale and leaseback.</p> <p>On the same day, KordaMentha were appointed by the Banking Syndicate to undertake an independent business review of Willmott Group over the following two weeks.</p>

Date	Event
	<p>On 22 July 2010, given that KordaMentha was undertaking a two week independent business review, the Willmott Group requested the temporary waiver to be extended to 6 August 2010, which was granted by the banking syndicate on 28 July 2010.</p> <p>On 26 July 2010, ASIC requested further information in relation to the 2010 Scheme and compliance with financial requirements of the AFSL. ASIC also requested WFL's cash requirements to 31 January 2011 and confirmation that WFL had adequate financial resources to meet its debts and Scheme obligations.</p> <p>On 29 July 2010, at a Board meeting Gresham Partners presented an Asset Realisation Program to the Board. The Board papers noted that the non-rollover of the \$15m in Bank Syndication debt could impede WFL's ability to meet treasury policy. It was also noted that the underperformance of Scheme sales was attributed to the demise of other MIS providers, poorer finance options and rates being offered, the role of independent researchers and loss of access to dealer groups.</p>
August 2010	<p>On 6 August 2010 the Banking Syndicate agreed to a further temporary waiver extension until COB 20 August 2010. In return, WFL agreed that the Banking Syndicate were not required to make any further drawdowns during the period to 20 August 2010. This excluded the rollover of Facility A that was due on 20 August 2010, which could be rolled over until COB on 6 September 2010. The Willmott Group also agreed that its directors would not convene a directors' meeting of WFL or any other guarantor to consider the appointment of an administrator to WFL or such guarantor unless it provided the Banking Syndicate with 24 hours prior written notice of the proposed directors' meeting.</p> <p>On 11 August 2010 the Willmott Group responded to ASIC's information request dated 26 July 2010 and confirmed that it continued to meet its obligations and was considering specific measures to address the challenges of lower than expected 2010 Scheme sales and had the early support of key stakeholders including the Banking Syndicate.</p> <p>On 20 August 2010, the Willmott Group requested an extension to the temporary waivers through to COB on 3 September 2010.</p> <p>On 25 August 2010 an Indemnity & Access Deed was entered into between WFL and its directors. The Deed required WFL to indemnify each of the directors against all liabilities including claims, demands, actions, suits, proceedings, and judgments etc, incurred as a result of their role as directors.</p> <p>On 31 August 2010 the Board meeting tabled a cash flow forecast indicating that cash resources would be insufficient to complete a land acquisition settlement in late September 2010 for \$9.2m which was required for the completion of the 2009 Scheme.</p>
September 2010	<p>On 6 September 2010 the Willmott Group's Banking Syndicate appointed Receivers and Managers. The directors subsequently resolved to appoint a Voluntary Administrator.</p>

11.9.2 CASHFLOW TEST

The *Cashflow Test* is commonly used to determine whether an entity can pay its debts as and when they fall due from available resources.

It is evident from the above timeline that, as a consequence of the low level of 2010 Scheme sales, the Willmott Group should have been aware of an impending liquidity crisis from at the latest 30 June 2010 when Grower Investor applications closed. It was around this time the directors requested a trading halt and commenced restructuring discussions with the Banking Syndicate.

An analysis of working capital at 30 June 2010 would also suggest that Willmott Group was experiencing liquidity issues as:

- a negative working capital position of \$22.4m was reported; and
- the working capital ratio was less than 1 as shown below.

Working Capital	06-Sep-10 (\$'000)	30-Jun-10 (\$'000)	31-Mar-10 (\$'000)	31-Dec-09 (\$'000)	30-Sep-09 (\$'000)
Current Assets	43,347	57,304	68,019	69,085	100,426
Current Liabilities	63,266	79,689	40,207	53,802	74,409
Surplus / (Deficit)	(19,920)	(22,385)	27,812	15,283	26,016
Working Capital Ratio	0.69	0.72	1.69	1.28	1.35

However, whilst we make the above observations, we note that none of the usual leading insolvency indicators were present leading up to the appointment of Receivers and Managers. For example, the Willmott Group showed no signs of a deteriorating aged payables, there were no creditor demands or judgements issued and WFL reported cash or cash equivalent balances of \$12m at 30 June 2010 and \$7.9m at 6 September 2010.

This does not mean that the Willmott Group was not insolvent (see Balance Sheet Test section 11.9.8). This matter requires further investigation.

11.9.3 FINANCIAL FORECASTS

To further examine the Willmott Group's date of insolvency also requires consideration of projected liquidity and the attempts by the directors to restructure the business operations. In other words, should the directors have known that the Willmott Group was likely to be unable to pay its debts at some point in the future and, if so, what was the reasonableness of any attempts to restructure the business.

The Willmott Group introduced long term financial modelling to its Board information packs during FY10 indicating management were becoming increasingly cash focused. The Willmott Group's ability to generate sufficient cash flow to meet its various obligations (including existing Scheme maintenance) was primarily met from new Scheme sales, debt funding, equity raising and restructuring initiatives. The financial forecasts are important in determining the directors' reasonable knowledge of the Willmott Group's future solvency, based on a number of key assumptions.

The table below exhibits various financial forecasts and key assumptions presented to the Board during FY10.

Key Assumptions

Date presented to the board	Expected Scheme sales (\$)				Expected Timberland Fund Sales (\$)				Expected Capital Raising Value (\$)	
	FY10	FY11	FY12	FY13	FY10	FY11	FY12	FY13	Date	
6-Oct-09	80m	90m	100m	110m	10m	20m	25m	30m	Dec-09	20m
									Dec-10	30m
11-Nov-09	80m	90m	100m	110m	-	20m	25m	30m	Oct-09	20m
									Sep-10	30m
17-Dec-09	80m	90m	100m	110m	5m	20m	25m	30m	Oct-09	20m
									Sep-10	30m
9-Feb-10	80m	90m	100m	110m	-	20m	25m	30m	Oct-09	20m
									Sep-10	30m
26-Feb-10	80m	90m	100m	110m	-	20m	25m	30m	Oct-09	20m
									Sep-10	30m
22-Mar-10	80m	90m	100m	110m	-	20m	25m	30m	Oct-09	20m
									Sep-10	30m
29-Apr-10	80m	100m	100m	100m	-	20m	25m	30m	-	-
									-	-
28-May-10	50m*	70m	70m	70m	-	-	-	-	-	-
	50m	70m	70m	70m	-	-	-	-	-	-
	60m	70m	70m	70m	-	-	-	-	-	-
	70m	70m	70m	70m	-	-	-	-	-	-
	80m	70m	70m	70m	-	-	-	-	-	-

*Assumes no external Grower Investor finance

Cash resources would peak at the end of each financial year as Scheme applications were accepted. The Willmott Group's ability to continue as a going concern beyond FY10 was primarily predicated on:

- achieving cash inflows in respect of the forecast \$80m of 2010 Scheme sales (which external financiers would largely fund on behalf of Grower Investors);
- a capital raising of \$30m in late 2010; and
- the benefits of a proposed restructuring.

Each of these items is considered below.

11.9.4 2010 SCHEME SALES

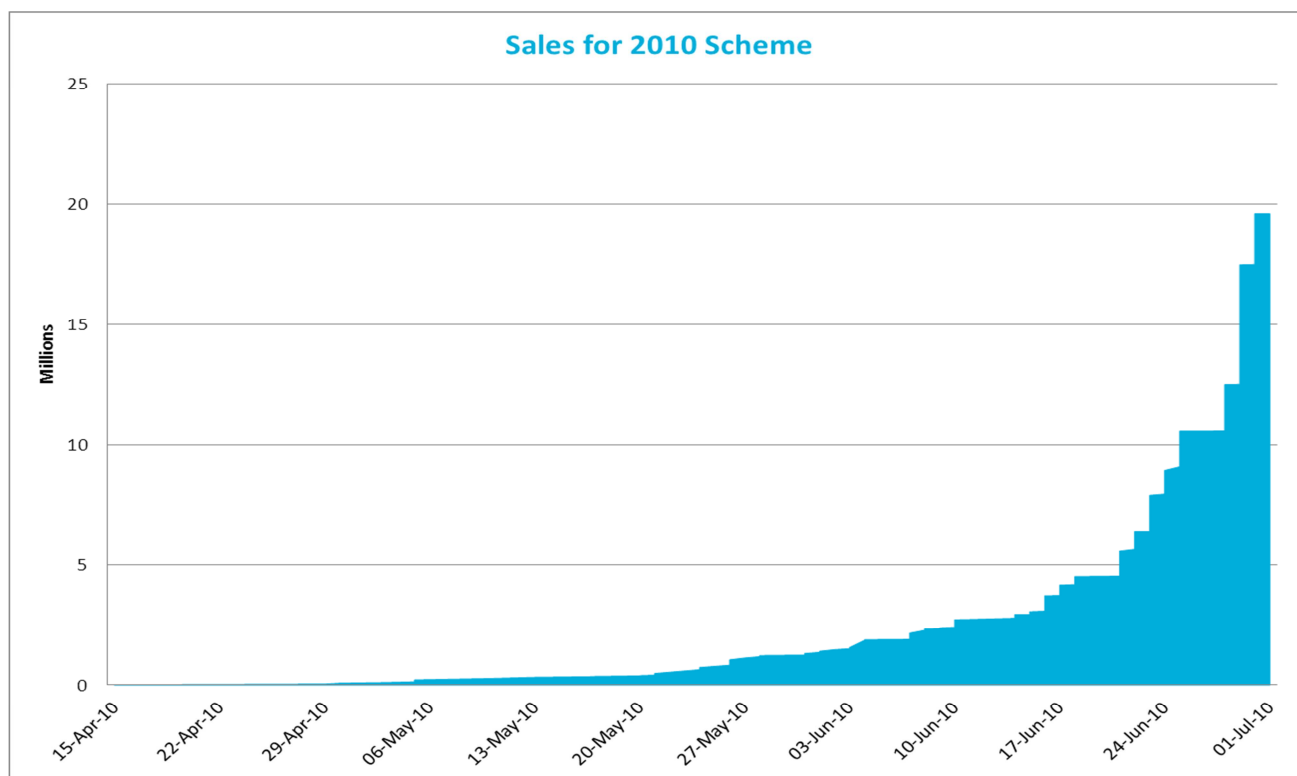
Forecast sales for the 2010 Scheme totalling \$80m were predicted for most of FY10 (a turnaround of \$13.5m compared with FY09). This forecast was maintained despite:

- the external administrations of Great Southern and Timbercorp occurring before the end of FY09, which no doubt had a negative impact on Grower Investor confidence; and
- the lack of clarity on Grower Investor finance until May 2010, being one month before sales closed.

From evidence reviewed to date, the Willmott Group's sales and marketing team were advising the directors for most of FY10 that \$80m of Scheme sales were achievable. It was thought that whilst the market had contracted, the Willmott Group would command a larger market share following the demise of its two largest competitors.

When the directors were informed by the sales and marketing team in April 2010 that Scheme sales for that year would be in the region of \$40m to \$60m, they were still of the view that this was a conservative estimate and that at least \$60m would be achieved.

Applications for the 2010 Scheme commenced being received in April 2010. Given Scheme sales were accepted up until applications closed at midnight on 30 June 2010, WFL was unable to accurately predict the final quantum with certainty until that date. The following table depicts the timing of 2010 Scheme application sales received from 15 April 2010 to 30 June 2010.



Sales ultimately achieved for the 2010 Scheme were \$19.7m or around 25% of that previously expected. As the Willmott Group provided the Grower Investor finance, the net cash inflow to the business was negligible.

11.9.5 GROWER FINANCE

We understand the Willmott Group found it difficult to secure Grower Investor finance in FY10.

Management have advised that in late 2009 the Banking Syndicate informed the Willmott Group that it would no longer provide Grower Investor finance for future Schemes, including the forthcoming 2010 Scheme. The Willmott Group subsequently appointed advisors in February 2010, to assist with sourcing Grower Investor financing alternatives.

The Willmott Group announced to the market on 24 May 2010 that an external Grower Investor finance facility had been secured for the 2010 Scheme with Merricks Capital. WFL did not disclose that the finance was conditional on Scheme sales in excess of \$40m being achieved. The non-disclosure of this condition is potentially a breach of ASX continuous disclosure rules. This is to be further investigated.

Prior to 30 June 2010, the directors believed that the \$40m take up rate would be achieved. Ultimately Scheme sales would be around half this amount.

11.9.6 CAPITAL RAISING

The Willmott Group achieved a \$20.5m capital raising in November 2009 following the successful completion of a placement and rights issue announced on 1 October 2009. The directors have advised that this was primarily to fund capital requirements (e.g. land acquisitions and joint venture funding in respect of the timber process mill) as well as general working capital requirements.

The Board had forecast a further capital raising of \$30m toward the end of 2010. It is the directors belief that had such funding been sought, the restructuring initiatives would have been well advanced.

11.9.7 RESTRUCTURING INITIATIVES

If the directors had reasonable grounds to suspect that their restructuring initiatives would have been successful in maintaining the solvency of the Willmott Group, they may have a defence to any potential insolvent trading action.

A 'Business Restructuring Planning Document' dated 16 March 2010 was presented to the Board on 22 March 2010. The restructuring plan aimed to achieve debt reduction of \$55m and attain cash flow positive operations from the 2011 Scheme. Various other initiatives were considered, including cost reductions and asset sales of surplus land and the Willmott Group's airplane. We understand that the directors deemed the restructure necessary at this time given:

- the financial forecasts predicted future covenant breaches; and
- the Willmott Group was considered to be carrying excess debt.

As a result of the significantly lower than expected 2010 Scheme sales and the requirement to self-fund the 2010 Grower Investor loans, on 1 July 2010 the Willmott Group entered a trading halt and commenced restructuring discussions with the Banking Syndicate. The restructuring proposal presented to the Banking Syndicate on 20 July 2010 included a number of initiatives including cost reducing measures (e.g. headcount reductions), an asset sale program to repay debt and new sales and marketing strategies.

The success of the restructuring proposal presented to the Banking Syndicate was largely dependent on achieving significant debt reduction via a net return of \$104m on the sale and leaseback of the major land holdings (c\$183m gross less c\$79m in prepaid rent). We consider these values to be unachievable given recent valuations obtained by the Administrators in respect of the Bombala land.

As previously advised, the Banking Syndicate appointed the Receivers and Managers on 6 September 2010.

11.9.8 BALANCE SHEET TEST

The *Balance Sheet Test* assesses the solvency of an entity with reference to the net asset position (i.e. the level of total assets in excess of total liabilities).

The net asset position of the Willmott Group at various intervals between 30 September 2009 and 6 September 2010 is outlined below.

	06-Sep-10 (\$'000)	30-Jun-10 (\$'000)	31-Mar-10 (\$'000)	31-Dec-09 (\$'000)	30-Sep-09 (\$'000)
Current Assets	43,347	57,304	68,019	69,085	100,425
Non-Current Assets	284,005	285,622	275,840	275,514	265,386
Total Assets	327,352	342,926	343,859	344,560	365,811
Current liabilities	63,266	79,689	40,207	53,802	74,409
Non-Current Liabilities	118,210	112,521	144,047	129,507	179,096
Total Liabilities	181,476	192,209	184,254	183,309	253,505
Net Assets	145,876	150,717	159,604	161,291	112,306

As noted above, at all intervals the Willmott Group had reported total assets in excess of total liabilities of between \$112m to \$161m. *Prima facie* this would indicate that the Willmott Group was Balance Sheet solvent throughout the above time period. However, as outlined in section 6, the Administrators have identified a number of issues in regard to the carrying value of certain assets and liabilities recorded in the financial reports. For example:

- Asset values may be overstated noting that:
 - freehold land was valued on an unencumbered basis, ignoring the long term leases and Grower Investor interests (refer section 6.3.9);
 - Standing Timber and Harvest Proceeds are recorded as assets which assumes the right to receive the income and the tax deduction without embracing the actual future costs;
- Liabilities are potentially understated, noting the potential existence of:
 - onerous contracts whereby the costs to perform lease and maintenance obligations potentially exceeds the deferred lease and maintenance fees receivable; and
 - a number of unviable Schemes, where the costs to complete is predicted to exceed any expected returns (refer Poyry commentary in section 9.8).

If the Willmott Group's financial statements were restated to account for the above items, there would be a material and detrimental impact to the Willmott Group's Balance Sheet. Preliminary analysis indicates a potential negative asset position and therefore Balance Sheet insolvency may have existed for a number of years.

We are continuing to investigate whether the accounts of WFL were reasonably stated and the impact upon the net asset position of any identified adjustments.

11.9.9 CONCLUSION TO EVENTS TO INSOLVENCY AND TIMING OF INSOLVENCY

In conclusion, it is likely that the Willmott Group was insolvent from no later than 30 June 2010 when it was established that forecast 2010 Scheme sales would not be achieved and alternative sources of finance were not readily available. However, insolvency may have occurred:

- in April 2010 when the directors became aware that 2010 Scheme sales would be lower than forecast and therefore liabilities for maintenance etc were unfunded; or
- possibly earlier where it can be established that insufficient assets were available to fund known liabilities (i.e. a net asset deficiency existed once known assets and liabilities were properly valued and accounted for). Important to this assessment is the viability of the various Schemes. Poyry has concluded that around \$123m (in today's money) would be required to complete the Schemes (refer section 9.8.1) and even then a number of Schemes may be unviable (refer section 9.8.2).

The most prominent risk to the Willmott Group's business model was its continuing dependency on sales from new Schemes to fund, inter alia, the operating costs of all Schemes (including those already in existence). This created a cycle of dependency on new Scheme sales to allow operations to continue. In an environment of declining Scheme sales in FY09 and FY10, the Willmott Group's deferred fee model was unsustainable.

The impact of the lower 2010 Scheme sales at 30 June 2010 meant that the restructure initiated in March 2010 was being considered in a distressed environment.

Under the *Cashflow Test*, the directors ought to have known that the Willmott Group was insolvent from no later than 30 June 2010.

Notwithstanding the above, the Administrators are continuing to assess the impact of the treatment of certain assets and liabilities in the accounts of WFL, which may indicate Balance Sheet insolvency at a date considerably earlier than 30 June 2010. Further investigations will be required should a liquidator be appointed.

11.10 DIRECTORS' LIABILITY

Directors have a statutory duty to prevent the insolvent trading of an entity according to section 588G of the Act, whilst sections 180 to 183 of the Act, further impose the following fiduciary duties on directors:

- to exercise their powers and duties in relation to the company with a degree of care and diligence;
- to act in good faith and for a fit and proper purpose that is in the best interests of the corporation;
- to prevent conflicts arising between personal interest and the company's interest;
- an obligation to act only in the best interests of the company; and
- to avoid improper use of specific information that has been obtained through the directors' work with the company to gain directly or indirectly an advantage.

The objective test or standard of measure in the suspected breach of conduct above is the reasonableness of the actions taken by directors and requiring the directors to demonstrate that their actions are to the same degree and level that would be required of an ordinary reasonable person holding a similar position and responsibility in the same circumstances.

A director who fails to prevent a company from incurring a debt at a time when the director is aware that there are reasonable grounds for suspecting that the company is insolvent, or will become insolvent by incurring that debt is in contravention of section 588G of the Act. This may result in a civil penalty under section 588J, such as compensation equal to the amount of that loss or damage, which may be sought by a liquidator. Note that an administrator or deed administrator may not pursue directors for recoveries in this regard.

Defences available to directors under section 588H of the Act are:

- a) the director had reasonable grounds to expect, and did expect, that the company was solvent at that time and would continue to be solvent if it incurred the debt;
- b) the director had reasonable grounds to believe that a competent and reliable person was responsible for providing adequate information about whether the company was solvent and that person was fulfilling the responsibility and it was expected, that on the basis of the information provided, that the company was solvent and would continue to be solvent when the debt was incurred;
- c) at the time the debt was incurred, the director, due to illness or other good reason, did not take part in the management of the company at that time; and
- d) the director took all reasonable steps to prevent the company from incurring the debt.

The Administrators investigations regarding whether any directors of the Willmott Group have breached their fiduciary duties are continuing in conjunction with finalising the date of insolvency discussed in section 11.9.

11.11 DIRECTORS' PERSONAL FINANCIAL POSITION

Regardless of the merits of any insolvent trading claim, in order for a claim to be considered commercial viable to pursue, it would be necessary for a director to have assets of value to satisfy any such claim.

We have requested that all directors of the Willmott Group provide a statement of their personal financial position to assist in the assessment of any amount likely to be recovered from the directors in the event of a successful insolvent trading action. The directors are yet to provide the Administrators with this statement.

We have further completed an initial search of publically available records for assets held in the directors' names, however at this time we do not intend to disclose the results of these searches.

In the event that creditors resolve to place the Willmott Group of entities into liquidation at the upcoming Second Meeting, the Liquidators shall continue investigations into any personal liability that the directors may have incurred as a result of the Willmott Group's trading activities.

11.12 HOLDING COMPANY LIABILITY

An insolvent trading claim can be brought by the liquidator of a subsidiary company against the holding company where there are reasonable grounds for suspecting that the holding company or its directors knew of the subsidiary's insolvency. Accordingly, WFL as the Willmott Group parent entity may be liable for the insolvent trading of any subsidiary.

Given the extent of WFL's control over its subsidiaries, the general commonality of directors and the fact that financial accounts were reported on a consolidated basis, there are reasonable grounds to believe that WFL and its directors had full knowledge of the finances of the Willmott Group's subsidiaries.

Section 588W of the Act deals with the recovery of compensation for loss resulting from any insolvent trading claim, noting that a company's liquidator may recover from the holding entity an amount equal to the amount of the loss or damage. Note that the holding company may off-set any monies owing under an intercompany loan account. All Willmott Group intercompany loans are detailed in Appendix F.

In relation to the pursuit of an insolvent trading claim against WFL as holding company, consideration must be given to the commerciality of any such claim, taking into account the insolvency of WFL and therefore the uncertainty of any recoveries.

Further comments regarding a holding company liability claim for each Willmott Group subsidiary are included in Appendix F.

11.13 WILLMOTT GROUP DIRECTORS' PERSONAL INTERESTS IN WILLMOTT SCHEMES

The following table identifies the personal interests that certain directors of the Willmott Group have in various Schemes. We are continuing to investigate whether these transactions represent any conflict of interest by the directors.

Grower Name	Product	ARSN	Hectares
Mr Marcus Derham	1995 Prospectus (1995)	089 598 612	5.00
Mr Marcus Derham	1997 Prospectus	089 598 612	4.00
Mr Marcus Derham	1998 Prospectus	089 598 612	4.00
Mr Marcus Derham	2001 Information Memorandum	N/A	67.00
Mr Marcus Derham	2002 Information Memorandum	N/A	50.00
Mr Marcus Derham	2007 Product Disclosure Statement (2007)	089 379 975	65.00
	McKenzie & Partners - Forestry Partnership		
Mr Marcus Derham	No.2 (1994)	N/A	10.00
Mr Marcus Derham	Second Prospectus 1990 (1990)	092 516 651	5.50
Mr Marcus Derham	Third Prospectus 1991	092 516 651	12.00
Mr Jonathan Madgwick	1995 Prospectus (1995)	089 598 612	6.00
Mrs Teresa Madgwick	1995 Prospectus (1995)	089 598 612	4.00
Mr Jonathan Madgwick	1996 Prospectus	089 598 612	5.00
Mr Jonathan Madgwick	1997 Prospectus	089 598 612	4.00
JD Madgwick Pty Ltd ATF JD Madgwick Family Trust	1998 Prospectus	089 598 612	1.00
Mr Jonathan Madgwick & Mrs Teresa Madgwick	McKenzie & Partners - Forestry Partnership		
	No.1 (1993)	N/A	4.00
	McKenzie & Partners - Forestry Partnership		
Mr Jonathan Madgwick	No.2 (1994)	N/A	4.00
Mr Jonathan Madgwick	Third Prospectus 1991	092 516 651	4.00
Mr James Higgins	2001 Prospectus	089 379 975	1.00

Grower Name	Product	ARSN	Hectares
Mr James Higgins	2003 Replacement Prospectus (2003)	089 379 975	1.00
Mr James Higgins	2004 Product Disclosure Statement	089 379 975	1.00
Mr James Higgins	2006 Product Disclosure Statement	089 379 975	1.00
Mr Hugh Davies	2003 Replacement Prospectus (2003)	089 379 975	3.00
Mr Raymond Smith	2009 Product Disclosure Statement	131 549 589	0.70
Mr Raymond Smith	2009 Product Disclosure Statement	131 549 589	0.06
Mr Raymond Smith	2009 Product Disclosure Statement	131 549 589	0.28

It is further noted in section 5.2 of this Report that certain directors were personally involved in related entities that provided financing alternatives to Grower Investors in the Willmott Schemes. This issue continues to be investigated by the Administrators.

11.14 EXAMINATION OF OFFICERS OF THE WILLMOTT GROUP

The provisions of Div. 1 of Part 5.9 of the Act provide a means by which an 'eligible applicant' such as a liquidator may examine officers of a company about its examinable affairs and any other person who may be able to provide information relating to such affairs. 'Examinable affairs' is a comprehensive term of wide ranging application and includes:

- the promotion, formation, management, administration or winding up of the corporation;
- and other affairs of the corporation; and
- the business affairs of a connected entity of the corporation in so far as they appear to be relevant to the corporation or its affairs.

If the Court is satisfied that a summons for examination should be issued, the examinee is usually required to produce at (or prior to) the examination specified books that are in the person's possession and relate to the corporation.

It is an offence if the person to be examined fails to attend the court, fails to answer a question, makes a false or misleading statement or fails to produce books stipulated in the summons.

Should the Willmott Group be placed into liquidation, we will consider the public examination of the directors, officers and other parties of interest as our investigations progress.

11.15 DIRECTORS INSURANCE AND INDEMNITY DEEDS

As at the date of Administration, WFL had in place Investment Management Insurance and Directors and Officers Insurance coverage as required under its AFSL.

These policies included the following insurance coverage:

- a primary Investment Management Insurance policy with Chartis for \$5m;
- two layers of insurance for \$5m each layer with Dual Australia Limited;
- a final layer of insurance with Catlin Australia Pty Ltd for \$10m; and
- a separate Directors and Officers policy with Catlin Australia Pty Ltd for \$10m.

Our investigations have identified that the directors of WFL entered into individual Directors Indemnity & Access Deeds (the **Indemnity Deeds**) with WFL on 25 August 2010, twelve days prior to the appointment of the first Administrator on 6 September 2010.

These Indemnity Deeds require that WFL indemnify the individual directors from all liabilities (claims, demands, actions, suits, proceedings, judgments etc.) incurred through their role as director and that WFL also arrange and maintain insurance cover for each director. We have been advised that this decision was ratified by the Board shortly before the appointment of the first Administrator, however we have not sighted any minutes to this effect.

We are currently reviewing the timing and enforceability of the Indemnity Deeds. This will be subject to further investigation should the creditors elect to place WFL into liquidation at the forthcoming meeting of creditors.

12. ESTIMATED RETURN FROM WINDING UP

Due to the size and complexities of the Willmott Group's structure and operations, we are unable to determine with any degree of certainty:

- the estimated return to creditors that might arise should the Willmott Group or particular individual entities of the Willmott Group enter into liquidation; and
- the likely timing of any return to creditors from the winding up of each Willmott Group company.

Other issues complicating the Administrators' calculation of the estimated return to creditors are:

- the value of key assets is currently uncertain;
- the unsettled position of Grower Investor rights in respect of each Scheme and the potential impact on the Willmott Group's assets and liabilities;
- creditor claims remain subject to change as a formal proving process has not been conducted and additional claims may be received;
- there are potential recoveries available to the Willmott Group upon liquidation which are currently of an indeterminate value; and
- the impact that the above issues and other complications have on the estimation of likely costs of administering the winding up of the Willmott Group.

13. RECOMMENDATION AS TO THE WILLMOTT GROUP'S FUTURE

Creditors will be asked to determine the future course of each company within the Willmott Group at the forthcoming meeting of creditors. It is our obligation to make a recommendation to creditors on which of the alternatives available under the Act is in the best interests of creditors.

We make the following comments in respect of each option available.

13.1.1 DEED OF COMPANY ARRANGEMENT

A DOCA proposal has not been put forward for any company in the Willmott Group. This option is therefore unavailable and cannot be considered by creditors.

13.1.2 ADMINISTRATION TO END

Each company in the Willmott Group appears to be insolvent and unable to pay its debts as and when they fall due. There is no evidence to suggest that any of the companies would benefit from a return of control to the directors in circumstances which have not materially changed since the directors resolved to appoint an Administrator because of the Willmott Group's financial difficulties.

13.1.3 THE WILLMOTT GROUP BE WOUND UP

Liquidation allows the assets of the Willmott Group to be realised and distributed in accordance with Section 556 of the Act. Once appointed, the Liquidators will be empowered to:

- complete a thorough investigation into:
 - the Willmott Group's past dealings and affairs; and
 - the past actions of the directors;
- report their findings to ASIC pursuant to section 533 of the Act; and
- pursue various potential recoveries under the Act, such as voidable transactions.

13.1.4 RECOMMENDATION

It is our recommendation, pursuant to section 439A(4)(b) of the Act, that it is in the best interests of creditors that each company in the Willmott Group be wound up (i.e. placed into liquidation).

A DOCA has not been proposed and it is not in the interests of creditors to bring the Administrations to an end and thereby return control of the Willmott Group to its directors.

14. REMUNERATION

Detailed below is background information regarding the approval of remuneration generally, but also specifically as it relates to the Willmott Group. Summary details of remuneration incurred to date and anticipated going forward are also provided in this section.

14.1 Administrators' Remuneration

The Administrator of a company is ordinarily entitled to receive such remuneration as is determined:

- by agreement with the committee of creditors (if any); or
- by resolution of the company's creditors; or
- if there is no such agreement or resolution – by the Court.

As outlined earlier, on 26 October 2010, the Court ordered the removal of Mr Fernandez as Administrator of the Willmott Group and appointed Messrs Carson and Crosbie as Administrators. In addition, the Court ordered that pursuant to s447A of the Act (dealing with the Court's general power to make orders) that the process for the approval of the Administrators' remuneration be varied so that such remuneration must be determined by the Court.

In light of the Court's order, the Administrators' remuneration is to be determined using the following process:

1. The Administrators provide a remuneration report to the Court Registrar on a periodic basis.
2. The Administrators are to serve a copy of the remuneration report by email on the following parties:
 - ASIC;
 - the Creditors' Committee;
 - the CBA and the SGB by their solicitors Clayton Utz;
 - the WAG by their solicitors Lilley Dawson; and
 - the WGG by their solicitors Clarendons (collectively the **Interested Parties**).
3. Within 14 days of service of the remuneration report (the **Objection Period**), the Interested Parties must file and serve a notice in writing identifying any claims for remuneration to which they object, together with a short but specific statement outlining the nature and grounds of the objection and the amount (if any) that they believe is claimable.
4. As soon as reasonably practicable after receipt of the remuneration report and the expiration of the Objection Period, the Registrar will advise whether further information is required to fix the remuneration for the relevant period, or will fix the remuneration and deliver short written reasons for their determination.
5. If the Registrar requests further information, the Administrators must provide such further information within 7 days of receipt of the Registrar's request.
6. As soon as reasonably practicable after receipt of the further information, the Registrar is to fix the remuneration and deliver short written reasons for their determination.
7. Pursuant to s447A(1) of the Act, the Court have advised that s449E(2) of the Act is to operate in relation to the Willmott Group of Companies as if it provided that where a Registrar has fixed the remuneration of the Administrators, the Administrators or any of the Interested Parties may apply to the Court to review the Registrar's determination. The Court may review the Registrar's determination and fix the Administrators' remuneration for the relevant period as the Court sees fit.

To date three Remuneration Reports have been prepared which are yet to be approved by the Registrar. Those reports are included as Appendix J as well as summarised below:

Willmott Group Entity	Remuneration Period			Total
	26/10/10 – 15/11/10	16/11/10 – 15/12/10	16/12/10 – 15/1/11	
Willmott Forests Limited - Scheme Related Tasks	\$105,479.90	\$180,631.00	\$93,974.30	\$380,085.20
Willmott Forests Limited - Non-Scheme Related Tasks	\$122,936.60	\$221,790.60	\$155,173.00	\$499,900.20
Total WFL Fees	\$228,416.50	\$402,421.60	\$249,147.30	\$879,985.40
Willmott Finance Limited	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Willmott Forest Products Pty Ltd	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Willmott Forests Investment Management Pty Ltd	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Willmott Forest Nominees Pty Ltd	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Willmott Energy Pty Ltd	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Willmott Subscriber Pty Ltd	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Bioenergy Australia Pty Ltd	\$Nil	\$1,048.29	\$833.41	\$1,881.70
BioForest Limited	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Willmott Notes Pty Ltd	\$Nil	\$1,048.29	\$833.41	\$1,881.70
Total Fees	\$228,416.50	\$411,856.21	\$256,647.99	\$896,920.70

We shall shortly seek the Registrar's approval for the above remuneration.

In addition to the above, we estimate that remuneration from 16 January until 22 March 2011, being the date of the Second Meeting of Creditors, will be in the order of \$545,227.80, calculated as follows:

Willmott Group Entity	Remuneration Period		Total
	16/01/11– 15/02/11	16/02/11– 21/03/11	
Willmott Forests Limited - Scheme Related Tasks (Refer to Appendix E)	\$92,555.30	\$110,619.82	\$203,175.12
Willmott Forests Limited - Non- Scheme Related Tasks	\$154,117.00	\$171,751.83	\$325,868.83
Total WFL Fees	\$246,672.30	\$282,371.65	\$529,043.95
Willmott Finance Limited	\$833.41	\$970.35	\$1,803.76
Willmott Forest Products Pty Ltd	\$833.41	\$970.35	\$1,803.76
Willmott Forests Investment Management Pty Ltd	\$833.41	\$970.35	\$1,803.76
Willmott Forest Nominees Pty Ltd	\$833.41	\$970.35	\$1,803.76
Willmott Energy Pty Ltd	\$833.41	\$970.35	\$1,803.76
Willmott Subscriber Pty Ltd	\$833.41	\$970.35	\$1,803.76
Bioenergy Australia Pty Ltd	\$833.41	\$970.35	\$1,803.76
BioForest Limited	\$833.41	\$970.35	\$1,803.76
Willmott Notes Pty Ltd	\$833.41	\$970.35	\$1,803.76
Total Fees	\$254,173.00	\$291,104.80	\$545,277.80

14.2 LIQUIDATORS' REMUNERATION & ROLE OF COMMITTEE OF INSPECTION

Pursuant to s473(3) of the Act, a liquidator is entitled to receive such remuneration as is determined:

- a) if there is a committee of inspection – by agreement between the liquidator and the committee of inspection; or
- b) if there is no committee of inspection or the liquidator and the committee of inspection fail to agree:
 - i. by resolution of the creditors; or
 - ii. if no such resolution is passed – by the Court.

In the event that the Willmott Group is wound up, the Administrators would recommend that a committee of inspection (**COI**) is formed for each company. In addition to being able to approve remuneration, a COI has a number of other statutory powers as well as being a valuable resource for the Liquidators to liaise and consult with throughout the liquidation.

A person is not entitled to be appointed a member of a COI unless that person is:

- a creditor of the company; or
- the attorney of a creditor of the company by virtue of a general power of attorney given by the creditor; or
- a person authorised in writing by a creditor of the company to be a member of the COI.

Should creditors resolve that the Willmott Group be wound up, we would continue to calculate remuneration on a time basis in accordance with the hourly rates agreed with the Court (refer to Appendix J), subject to annual increases with the approval of creditors.

It is difficult to estimate the duration and costs of the liquidation of the Willmott Group at this time, given the size and complexity of the corporate structure and the various Schemes. Nevertheless, we estimate that the liquidators' professional time costs to be in the order of \$1.5m as summarised below:

Willmott Group Entity	Remuneration Period Future Liquidation
Willmott Forests Limited - Scheme Related Tasks (Refer to Appendix E)	\$906,984.00
Willmott Forests Limited - Non- Scheme Related Tasks	\$513,980.00
Total WFL Fees	\$1,420,964.00
Willmott Finance Limited	\$10,075.11
Willmott Forest Products Pty Ltd	\$10,075.11
Willmott Forests Investment Management Pty Ltd	\$10,075.11
Willmott Forest Nominees Pty Ltd	\$10,075.11
Willmott Energy Pty Ltd	\$10,075.11
Willmott Subscriber Pty Ltd	\$10,075.11
Bioenergy Australia Pty Ltd	\$10,075.11
BioForest Limited	\$10,075.11
Willmott Notes Pty Ltd	\$10,075.12
Total Fees	\$1,511,640.00

15. FURTHER QUERIES

Should creditors have questions that they would like to be addressed at the Second Meeting, you are requested to submit all queries by email to willmott@ppb.com.au no later than **4:00pm on Friday, 18 March 2010**.

All material matters that come to our attention post the date of this Report shall be addressed in the Second Meeting. Should any significant information affecting the creditors' decision regarding the future of the Willmott Group come to light, we shall endeavour to advise creditors in writing prior to the Second Meeting by posting such information on our website at <http://www.ppbadvisory.com/>.

DATED 14 MARCH 2011



**IAN M CARSON & CRAIG D CROSBIE
JOINT & SEVERAL ADMINISTRATORS**