



# 2011 AIL Almond Orchard Project

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

3 May 2011

**Scope**

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

**Key Principles**

The underlying principles of the assessment process are to:

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

**Site Assessment**

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

The site assessment considers the following areas:

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

**Star Rating**

Projects are awarded a star rating out of a possible five stars and placed on the Adviser Edge web site [www.adviseredge.com.au](http://www.adviseredge.com.au)

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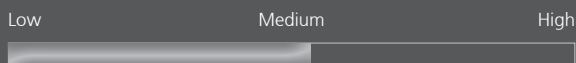
**Report Date**

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### Adviser Edge Rating



### Recommended Client Risk Tolerance

#### Project Details

Project Name	2011 AIL Almond Orchard Project
Product	Almonds
Responsible Entity	Almond Investors Limited
Orchard Manager	RMONPRO Developments Pty Ltd

#### Investment Details

Investment Term	Grower Project – 17 years Asset Trust – 29 years
Investment Unit Size	0.125ha (one Allotment), and one Unit in the Asset Trust
Application Fee (ex. GST)	Grower Project – \$6,909 Asset Trust – \$2,000
Ongoing Fee Structure	Annual
Minimum Investment	One Allotment and one Unit in Asset Trust
Close Date for FY2010	15 June 2011
Investor Finance	Not available
ATO Product Ruling	PR 2011/10

Investor Returns	Pre-tax	Post-tax
Potential Investment Returns (pre-tax)	3.70% – 9.50%	5.70% – 11.10%

### Key Points:

#### Strengths of Project

- The involvement of experienced orchard manager, RMONPRO, is expected to benefit the Project
- Previous almond projects established by AIL have performed reasonably well
- Investors gain ownership of the underlying assets
- The investment structure provides a high level of investor security

#### Weaknesses of Project

- Initial and ongoing fees for the Project are reasonably high
- Investors are exposed to increases in the price of temporary water
- Investors may be required to pay ongoing fees if harvest revenues are insufficient to cover ongoing fees and costs

#### Other Project considerations

- The investment is considered to be illiquid, with no liquid secondary market currently established

#### Investor suitability

As a general note, investment in agribusiness should represent a balance between the various potential risks and the forecast returns. This Project is suitable for investors with a risk-tolerant profile and long-term investment horizon, and as part of a diversified portfolio.

An investment of this nature will not deliver factory like returns. There will be volatility and potentially underperformance, which will be balanced by periods when seasonal conditions and strong markets combine to allow the investment to exceed expectations. Consequently, the risk profile of the investor needs to be considered when providing advice.

### Investment Specifications

Target subscription	1,437 Allotments (179.625ha)
Location	Swan Hill, Victoria
Unit size	0.125ha (one Allotment)
Number of trees per Unit	40
Minimum application	One Allotment and one Unit in the Asset Trust
Project asset ownership	Via an associated holding in the AIL Almond Asset Trust – 2010
Liquidity	Illiquid – no established secondary market
Insurance	Not provided

Almond Investors Limited (AIL) is offering investors the opportunity to participate in the Australian almond industry through the offer of up to 1,437 units (Allotments) in the AIL Almond Grower Project – 2010 (Grower Project) as a 2011 Grower. Each 0.125ha Allotment will be planted with approximately 40 almond trees on a property located adjacent to AIL's previous almond orchard developments at Piangil, approximately 45km north-west of Swan Hill, Victoria.

Investors in the Grower Project will also be required to invest in the underlying assets, through a 1:1 stapled investment in the AIL Almond Asset Trust – 2010 (Asset Trust), as a 2011 Orchard Asset Owner. Upon completion of the Grower Project, AIL will continue to operate the orchard under pre-existing terms on behalf of unit-holders in the Asset Trust. The Asset Trust will continue to operate the orchard until such time as unit-holders determine otherwise via an extraordinary general meeting scheduled to be held on or before 30 June 2040.

AIL has previously issued interests in the both the Asset Trust and the Grower Project. Investors who acquire interests under this offer are referred to as 2011 Investors, while those that acquired interests on or before 15 June 2010 are referred to as 2010 Investors. Although these two classes of investors hold interests under the same Project, they will be treated differently depending on the year in which they invested in the Project for the purpose of calculating fees and pooling almonds for sale, as well as for calculating and distributing the income and capital of the Asset Trust.

All almond sale proceeds from the Project will be aggregated under a pooling arrangement for the benefit of contributing growers, and investors are expected to receive proceeds from the progressive sale of harvested almonds, net of any outstanding fees. The first harvest is expected to occur in FY2014, when the trees are three years old. AIL has estimated that the orchard will reach mature production by age six.

### Key Points

- The investment is a stapled investment in the Grower Project and the Asset Trust.
- The term of the Grower Project is 17 years, and the term of the Asset Trust is expected to be 29 years.
- The Asset Trust will operate the almond orchard following the completion of the Grower Project.

As unit-holders in the Asset Trust, investors will own the land, almond trees and water shares associated with the Project orchard, while ownership of the related irrigation infrastructure will be initially held in the Grower Project. Irrigation assets are to be transferred to the Asset Trust at the termination of the Grower Project on 15 June 2028. Shared infrastructure, such as pumps, mainlines, and dams, is owned by the grower project that installed the infrastructure. However, there is an agreement in place which stipulates that shared infrastructure must be made available to past and future projects.

Although AIL does not intend to obtain any bank funding on behalf of 2011 Orchard Asset Owners, it has flagged that it may do so at some stage in the future if it is deemed to be in the best interests of investors. However, the Asset Trust has previously borrowed funds to acquire land, trees and water for 2010 Orchards Asset Owners. AIL was the provider of this finance. Taking these current borrowings into account, the Asset Trust's gearing is currently 100%.

As the lender to the Asset Trust, AIL has taken security over the assets acquired for 2010 Orchard Asset Owners. As outlined in the Product Disclosure Statement (PDS), only the assets attributable to 2010 Orchard Asset Owners comprise this security. This would remain the case in the event that a bank financier replaces AIL as lender for these borrowings. As such, the assets attributable to 2011 Orchard Asset Owners will remain unencumbered, unless AIL considers it in the interests of 2011 Orchard Asset Owners to obtain bank funding at some stage in the future.

Investors in the Project will be exposed to the counter-party risk of AIL and RMONPRO, in relation to the ability of the companies to perform their respective roles as Responsible Entity (RE) and Orchard Manager. However, the investors' exposure to the ongoing solvency of either counterparty is reduced considerably, due to the structure of the Project and the fact that all underlying assets, including water where applicable, will be owned by the investors.

***The Project is structured in such a way that there is limited reliance on the ongoing solvency of either AIL or RMONPRO. While benefits are expected to accrue from the ongoing involvement of these parties, the Project should be able to attract an alternative manager and RE in the event of the insolvency of either of the management counterparties.***

### Project structure and agreements

When investors are accepted into the Project, they will be bound by a number of legal agreements that outline the rights and responsibilities of each party involved in the investment scheme. These agreements are outlined in the Project's PDS. It is recommended that each potential investor and their adviser read and understand these agreements to ensure that the investment is suitable for the investor's objectives.

### Fee Schedule

The fees outlined in the following tables relate to an investment made on or before 15 June 2011.

#### Initial cost to the investor

Schedule of initial fees (ex. GST)	
Payment Type	Cost per Allotment
Growing and Management Fee	\$4,181.82
Irrigation Charge	\$2,727.27
Asset Trust Application Fee	\$2,000
Total	\$8,909.09

The application fee for the Grower Project includes a Grower Application Fee and an Irrigation Fee. The Grower Application Fee consists of two components, a Growing and Management Fee, which includes consideration for management services during the initial period and an irrigation component, which together with the Irrigation Fee forms the Irrigation Charge. The Irrigation Charge is used to cover the installation of the irrigation infrastructure, which is initially owned by the Grower Project, with ownership transferred to the Asset Trust following the termination of the Grower Project. The Irrigation fee is subject to depreciation.

#### Ongoing cost to the investor

Schedule of ongoing fees (ex. GST) (per Allotment)				
Year	Management Fee	Growing Fee	Sublease	Asset Trust Management
Project year 1 (FY2012)	\$1,318.18	N/A	\$772.73	\$80
FY2013	\$1,318.18	N/A	\$863.64	\$80
FY2014	\$345.45		\$954.55	
FY2015	\$290.91		\$1,090.91	
FY2016	\$272.73	Actual orchard operating expenses	Previous year's fee increased in line with CPI +/- variable component (cost of temporary water)	Previous year's fee indexed to CPI
FY2017 onwards	\$90.91 indexed to CPI# plus 7.0% of Gross Proceeds^			

^ Gross Proceeds: total proceeds from the sale of almonds attributable to an Allotment.

# Indexed from 1 July 2017.

Growers will be invoiced a fixed management fee in Project years one to six. From Project year seven (FY2018) onwards, investors will be invoiced a fixed management fee, being the previous year's fee indexed to CPI. Investors will be charged a Deferred Management Fee from Project year six (FY2017) onwards, which is taken as a percentage of Gross Proceeds. From Project year three (FY2014), Growers will be invoiced the actual operating cost of managing their Allotment, which ALL anticipates to be between \$844.55 (excluding GST) in FY2014 and \$1,270.91 (excluding GST) in FY2028.

The sublease fee is fixed from Project years one to four. From year five onwards, the sublease fee will be determined in accordance with the following formula:

$A - (B \times \$400) + (B \times C)$ , where:

- A is \$1,090.91 (excluding GST), increased at ALL's discretion by the same proportion as the increase in CPI since the date on which the fifth payment of rent is due
- B is 1.56ML, less the number of ML per Unit owned by the Asset Trust as permanent water shares
- C is the Average Seasonal Cost of Temporary Water

The variability of the sublease fee ensures that it remains commensurate with the actual costs of the temporary water provided, if temporary water is required. If, by Project year five, the Asset Trust owns 1.56ML of permanent water shares, there will be no variability in the sublease fee. Any further temporary water required for the Project above the allocation on the permanent water shares will be invoiced to growers as part of the Growing Fee. This effectively exposes investors to variability in temporary water trading markets.

Under the Constitution, unit-holders in the Asset Trust will be invoiced an Asset Trust Management Fee equal to \$80 per Unit (excluding GST) from Project year one. AIL may index the Asset Trust Management Fee in line with CPI from Project year three onwards.

#### **Performance incentive fee**

AIL is entitled to a performance incentive fee equal to 20% (excluding GST) of any Net Proceeds in excess of prescribed benchmarks as set out in the Project PDS. Net Proceeds are defined as the total proceeds from the sale of almonds attributable to an Allotment, less all Allotment fees and charges paid to the RE or incurred by the RE on the grower's behalf.

In order to allow for annual variation in returns from year to year, this fee will be calculated on a two-year rolling basis. Any amount by which the preceding year's net proceeds is below the benchmark will be added to the current year's benchmark. If the fee benchmark is not exceeded in any single year, no fee will be applicable. A two-year rolling basis helps to alleviate the impact of the variations in yields.

***AIL has indicated that one-third of any incentive fee received will be payable to RMONPRO as the orchard manager. This appropriately aligns RMONPRO with investors' interests.***

#### **Processing and marketing fee**

In each year of almond production, estimated to commence in Project year three, Growers will be charged the actual costs of processing and marketing the almonds attributable to their Allotment. AIL has estimated a cost of \$1.50/kg for processing and marketing in FY2011.

#### **Asset Trust Orchard Management Period**

Following the termination of the Grower Project on 15 June 2028, AIL will continue to manage the Project orchard on behalf of the Asset Trust. This will be known as the Asset Trust Orchard Management Period. The remuneration for managing the orchard during this Period will largely remain unchanged, with the Deferred Management Fee of 7.0% of Gross Harvest Proceeds continuing, and a Growing Fee equal to the actual costs of running the orchard.

During the Asset Trust Orchard Management Period all fees are payable from the income of the Asset Trust. AIL will also be entitled to a \$15.00 (excluding GST) administration fee from Project year 11 (FY2022) inclusive, which will increase annually in line with the CPI. The administration fee will be increased by \$150 (excluding GST) on the previous year's fee following the termination of the Grower Project in Project year 18, and indexed to CPI for the remainder of the Asset Trust's term.

In the event that the trustee of the Asset Trust determines that additional funds are required to purchase, establish, and maintain

Trust assets as outlined under the Constitution, AIL may require investors to make an additional contribution. This additional contribution is limited to \$2,000 per Unit over the term of the Trust.

#### **Fee Analysis**

With any horticultural MIS project, the application fee is generally dictated by the actual development cost incurred in establishing and managing the orchard, other administration costs such as corporate overheads, marketing and PDS development expenses, and the profit margin taken by the Project manager. The total application fee for the Grower Project remains unchanged from the previous year.

AIL has provided Adviser Edge with a simple breakdown of the growing and management fee. From this it can be seen that a high proportion of the initial fee is attributable to indirect corporate overheads, distribution costs, and promoter profit. The \$2,727 (excluding GST) Irrigation Charge is used to develop the irrigation infrastructure on the orchard, which will be owned by the Asset Trust, and therefore investors, following the completion of the Grower Project.

Ongoing management fees are fixed in Project years one and two. The fixed management fee for Project years one and two remain unchanged from last year's offering at \$1,318.18 per Allotment. During this period, AIL will pay RMONPRO the actual growing costs. These have been estimated at approximately \$800 per year. AIL is required to pay any excess in the growing costs above \$1,318 in years one and two, and will retain the difference if the actual growing costs are below \$1,318. This provides investors with protection against increased costs during the development of the young orchard.

From Project year three investors are exposed to the actual cost of operating the almond orchard through the Growing Fee. This fee structure also remains unchanged from last year's project.

Investors will pay a fixed management fee from Project year three onwards, with a deferred component of 7.0% (excluding GST) of Gross Proceeds payable from year six onwards. The deferred component, and the additional ongoing management fee of \$90.91 per Allotment (excluding GST) indexed to CPI, charged from Project year six onwards, remain unchanged.

***The fixed management fee payable throughout the life of the Project provides additional investor security by ensuring that there are sufficient funds available to remunerate a replacement RE in the event of AIL's insolvency.***

The sublease fee is fixed in Project years one to four, after which time the fee may vary in line with the cost of water, as outlined previously, depending on the amount of permanent water owned by the Asset Trust.

As lease fees are paid to the Asset Trust, the level of these fees does not affect investors' pre-tax returns.

As Growers will be exposed to actual orchard operating costs through the Growing Fee from Project year three (FY2014) onwards, the ability of AIL and RMONPRO to monitor and control orchard operating costs over the Project term will have a direct impact on Project profitability. In addition to this, management of water purchasing, particularly temporary water, will need to be carefully managed. It may be possible for AIL to enter into medium to long-term arrangements to secure water on behalf of growers, at acceptable prices.

The incentive fee is not payable provided that AIL's performance parameter assumptions prevail over the Project term.

#### **Risk apportionment**

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

***The fee structure for the Project provides incentive for both AIL and RMONPRO to achieve the best outcomes for the Project through the deferred management fee and the incentive fee.***

#### **Additional Information**

##### **Joint Venture Growers**

Under the Project structure there is an option for investors to participate as a Joint Venture Grower in the Grower Project. Under this option, the first Joint Venture Grower is responsible for 100% of the Grower Application Fee and the Irrigation Fee, as well as 39% of ongoing fees, including management, rent, incentive fees, processing costs, marketing and deferred fees, from Project years six to 17. The second Joint Venture Grower is responsible for 100% of the ongoing fees from Project years one to five, as well as 61% of the ongoing fees from Project years –six to 17. The first Joint Venture Grower will be entitled to 39% of the net harvest proceeds, with the second Joint Venture Grower entitled to 61%.

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

##### **Taxation advice**

The Project has been issued a product ruling, PR 2011/10, which provides certainty in relation to the taxation consequences of investing in the Project.

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

##### **Orchard insurance**

AIL does not intend to insure the orchard against fire or extreme weather conditions such as hail and frost. AIL has undertaken a cost versus risk analysis and obtained independent advice from horticulture consultants and determined that crop insurance is currently cost prohibitive.

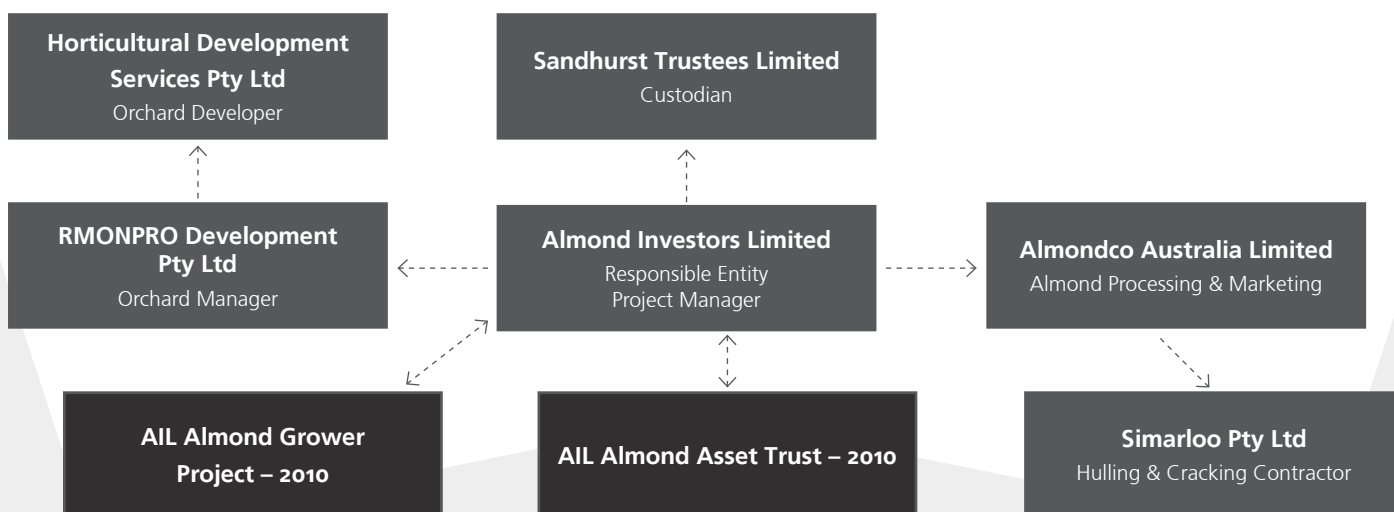
***Adviser Edge believes that the use of insurance to protect against insurable production risks should be part of a comprehensive Project risk management strategy whenever economically feasible.***

##### **Finance**

Finance is not available to investors in the 2011 AIL Almond Orchard Project.

However, AIL has provided an option that allows investors to pay their application monies over a 12 month period in equal monthly instalments.

### Key Counterparties



### Almond Investors Limited (Responsible Entity/ Project Manager)

Almond Investors Limited (AIL) (AFS licence no. 224314) is an unlisted public company formed in 2002 to market and manage a series of almond orchard investment offers under the Managed Investment Scheme (MIS) structure. AIL has raised approximately \$100 million from nine previous investment offerings between 2004 and 2010, resulting in the establishment of over 1,200ha of almond orchards on neighbouring properties located near the township of Piangil in the Swan Hill region of north-west Victoria. Of these orchards, 163ha have been established under wholesale investment offerings.

As Responsible Entity (RE) of the Project, AIL is responsible for managing all the financial aspects and overseeing the operations, processing, and marketing of the Project. Project operational roles are outsourced to key Project counterparties, with orchard operations undertaken by related party RMONPRO Developments Pty Ltd, and orchard development services to be conducted by related party Horticultural Development Services Pty Ltd.

#### Board of Directors

Board of Directors – Almond Investors Limited			
Director	Credentials	Industry	Director
Wayne Overall – Executive	★	★	★
Graham Johns – Executive	★	★	★
Michael Naphtali – Non-Executive Chairman	★	★	★
Keith Woodhead – Non-Executive	★	★	★

### Key Points

- The orchard manager, RMONPRO, is experienced in almond orchard management.
- AIL is in a sound financial position, and the structure of the Project reduces investor reliance on AIL solvency.
- The designated marketer, Almondco, is one of Australia’s leading almond processors and marketers.

*Adviser Edge believes that the directors of AIL are appropriately experienced and credentialed in both the agricultural and funds management industries to fulfil the company’s role as RE.*

#### Corporate governance and compliance

*Adviser Edge has reviewed the corporate governance documents supplied by AIL, including the corporate governance statement, board charter, risk management statement and business continuity plan. Adviser Edge is satisfied that AIL has adopted appropriate corporate and financial management procedures for a company of its size and nature.*

AIL has established a Compliance Committee for the Project, as required under the Corporations Act. The Compliance Committee is required to monitor the extent to which the RE complies with the Project Compliance Plans, and to report any breaches to the directors of the RE and, if necessary, ASIC.

The Compliance Committee is comprised of two external members, solicitor Ewan MacDonald (Chairman) and Sandy Gilbert, who is a Chartered Accountant, as well as one representative of the RE, Keith Woodhead.

*The oversight of the Compliance Committee will be critical to achieving sound corporate governance for the Project, given the relationship between the Responsible Entities and the contracted parties, namely RMONPRO, which shares a common director in Graham Johns.*

#### Financial performance

##### Key Financial Data – As at 30 June

Financial Profitability	2010	2009
Revenue (\$m)	22.63	22.34
Net profit (\$m)	(0.48)	0.11
Profit margin (%)	-2.1	0.5
ROCE (%)	-5.0	3.7
ROE (%)	-4.3	0.9
Financial Liquidity/Solvency	2010	2009
Net working Capital (\$m)	6.85	4.5
Current Ratio	2.17	1.68
Quick Ratio	2.11	1.6
Net debt to equity ratio	-0.34	-0.25
Interest Cover (times)	2.33	16.89

Source: AIL Financial Report 2010.

Although revenue from MIS sales has been maintained, AIL did not post an operating profit in FY2010. This follows a profit of \$0.11 million in FY2009 and \$2.58 million in FY2008. However, the loss can be attributed to a one-off write-off of \$1.4 million, provision for a legal settlement with an external supplier of \$430,000 and write-downs of \$403,000 on the value of almond investments held by AIL. However, if the effect of these non-recurring items is removed, the underlying net profit after tax can be adjusted to \$1.24 million, which is a substantial increase on the result achieved in FY2009.

Previous projects offered by AIL are largely self-funded through ongoing management fees, with all project assets owned by investors. As a result, AIL has low debt levels, with a negative debt to equity ratio, and has been able to maintain reasonable liquidity ratios, which have largely improved in FY2010.

Accordingly, the RE's credit risk is largely confined to the willingness and ability of investors in other AIL projects to meet ongoing lease and management fees, and the unlikely event that AIL substantially departs from its previous business model. AIL would not disclose the default rates of investors in other AIL projects, making it difficult to quantify this risk.

However, AIL has disclosed that Grower defaults are manageable and that they have not experienced any significant change in default rates over the various project years.

AIL has issued proceedings against defaulting Growers to recover outstanding growing fees, which represent less than 1% of total fees collected annually.

*The Project's reliance on the ongoing solvency of the RE, AIL, is low compared to other MIS projects, meaning that while the financial capacity of the RE is important, it is less critical than for structures where land ownership is not present and there is increased potential for solvency risk. Further to this, all application fees and almond sales proceeds will be held on trust by the custodian, Sandhurst Trustees Limited. Notwithstanding, AIL's financial position appears to be sufficient to meet the requirements of the Project.*

##### MIS Capital Raising History – AIL

Project Name	Financial Year	Area (ha)	Capital Raised (\$ million)
2010 AIL Almond Orchard Project	2010	30	1.9
2009 Piangil Almond Orchard Project	2009	20	1.1
2008 Piangil Almond Orchard Project	2008	57	5.3
Stage 2 of the 2007 AIL Almond Orchard Project	2008	83	7.6
2007 Piangil Almond Orchard Project	2007	163	16.0
Stage 2 of the 2007 AIL Almond Orchard Project	2007	128	11.5
2006 AIL Almond Orchard Project	2006	441	39.4
2005 Swan Hill Almond Orchard Project	2005	130	8.2
2004 Swan Hill Almond Orchard Project	2004	156	8.9
<b>Total</b>		<b>1,208ha</b>	<b>\$99.9 million</b>

#### RMONPRO (Operational Manager)

AIL has engaged RMONPRO Developments Pty Ltd (RMONPRO) to assume its orchard management responsibilities under the Orchard Management Agreement. RMONPRO currently manages all of AIL's existing almond orchards under the direction of General Manager and AIL Executive Director Graham Johns.

**Key Operational Personnel – RMONPRO Developments Pty Ltd**

Key Personnel	Credentials	Industry	MIS
Graham Johns – Executive Director	★	★	★
Jan Fourie – Orchard Manager	★	★	★

**Adviser Edge believes that the managers of RMONPRO are suitably qualified and experienced to carry out the orchard management for the Project. Graham Johns is considered to be one of the leading almond orchard managers in Australia.**

AIL co-founder and Executive Director Graham Johns is also the sole owner and director of RMONPRO. Mr Johns has 30 years’ experience in the Australian and international almond orchard industry. Mr Johns has large-scale farm and agribusiness management experience, having previously held the position of General Operations Manager for the publicly listed Select Harvests Limited in the Robinvale region between 1995 and 2000. During this time, Mr Johns was instrumental in the management and development of company orchards, as well as nursery and processing operations. Mr Johns is also the sole director of Horticultural Development Services Pty Ltd, the company that is contracted to develop the Project orchard.

Mr Johns places a strong emphasis on research and development in the operations of RMONPRO, and is a member of the Almond Board of Australia’s Industry Advisory Committee. The Industry Advisory Committee is involved with the development and dissemination of industry policies and practices, and Mr Johns’ position on the committee is expected to give RMONPRO primary access to the latest production techniques developed for the almond industry. Mr Johns currently resides in Adelaide, South Australia, and commutes to the property as required on a regular basis.

RMONPRO currently employs 10 staff, including orchard manager Jan Fourie. The Orchard Manager is responsible for the day-to-day operation of the orchard, reporting directly to Mr Johns.

Jan Fourie has more than 15 years’ horticultural experience across South Africa and, more recently, Australia, and has completed a Diploma in Horticulture (Production). Jan has been with RMONPRO for 5 years.

**Almondco Australia Limited (Processing and marketing)**

AIL has entered into an Almond Crop Supply Agreement with Almondco Australia Limited (Almondco) for the processing and marketing of the almonds produced from the Project.

Almondco is principally a wholesale almond processor and marketer that specialises in value-added processing of shelled almonds. Almondco was established as a cooperative in 1944, and became an unlisted public company in 1994.

In 1995, Almondco commissioned a modern almond food processing plant at Renmark in South Australia, with the cracking and hulling of almonds contracted to regional facilities. Almondco currently processes approximately 9,000 tonnes annually, representing approximately 30% of Australia’s almond harvest. The processing plant has achieved ISO 9001:2000 accreditation with SGS International Certification Services Pty Ltd, which provides independent certification of Almondco’s quality management.

As a supplier to many of Australia’s major food manufacturers, Almondco has a predominantly domestic market focus but anticipates a growing export presence, having secured a significant expansion in supply in coming years. Almondco has previously dealt with over 70 international customers, with major clients in the United Kingdom, Western Europe, India, Japan, the Middle East and New Zealand.

**Adviser Edge believes that Almondco has the appropriate facilities in place and is well positioned in the market to achieve the best outcomes for growers through the processing and marketing of the almonds produced from the Project.**

**Independent Experts**

Independent Expert		
Focus	Company	Responsible Person
Independent Expert	Sunraysia Environmental Services Pty Ltd	Kym Luitjes
Annual orchard review	Agriexchange	Trevor Sluggett

The Independent Expert for the Project is Kym Luitjes, Managing Director of Sunraysia Environmental Pty Ltd. Mr Luitjes holds a Bachelor of Applied Science Natural Resource Management, has studied irrigation and soil management in the Volcani Centre, Israel, and has over twenty years’ experience in the horticulture industry. He has consulted on previous AIL project offers in a technical capacity.

AIL has engaged Agriexchange to provide an annual horticultural review of the AIL Orchards at Piangil, in addition to providing irrigation and soil analysis prior to commencing each orchard development. Agriexchange is a highly regarded agronomy firm with extensive experience in various horticulture crops in the region.



In accordance with Adviser Edge's research protocols, a site inspection of the Almond Investors Limited (AIL) orchard operations was undertaken on 15 March 2011. The inspection provided Adviser Edge with an opportunity to view trees from previous AIL projects and discuss with operations manager RMONPRO's Graham Johns the issues that have either positively or negatively influenced the performance of the orchards over the previous year.

Overall the orchard was in good condition, with trees generally benefiting from the improved seasonal conditions to put on strong growth. This is in contrast to previous years when low water allocations were a limiting factor. Murray River irrigation allocations are at 100% for the 2010-11 irrigation season, and are expected by Adviser Edge to remain high for at least the next three years, or longer if water storage levels also remain high.

The impact of the extended drought and low water allocations is most clearly evident in tree growth rates, although improved growing conditions and plentiful water provided management with an opportunity to make up some of the ground that was lost in the period from 2007 to 2009. Indeed 2010-11 has already seen some evidence of the trees 'catching up'.

Adviser Edge was impressed with the pruning/training regime implemented throughout the orchard, which is aimed at promoting good tree structure. Over a period of three years the trees are trained and pruned into what is termed an 'open vase' system, which maximises light penetration and provides the trees with the ability to carry heavy nut loads at maturity.

It is apparent that Nonpareil trees have significantly underperformed in this year's harvest, with most age classes affected. RMONPRO believes that a period of very high temperatures in November 2009 negatively affected the Nonpareil variety, resulting in higher levels of vegetative growth and

### Key Points

- The Project is reliant on irrigation water sourced from the Murray-Darling Irrigation System, which has experienced a strong recovery in storage levels in the past 12 months.
- AIL has had to carefully manage orchard health during previous periods of low water allocations.
- RMONPRO's capacity to successfully manage almond orchards is seen in the quality of established orchards.

very poor yields. The Almond Board of Australia indicated that the lower than expected yields for the Nonpareil variety were being experienced in all major growing regions. In contrast, the pollinator varieties Price and Carmel, have yielded well, with Price being the standout variety for 2011.

While 2011 will be a poor yielding year for Nonpareil, the 2012 fruiting wood is carrying a high load of fruit buds, which indicates that there is potential for a large crop from this variety next harvest. As a consequence, RMONPRO has implemented a 'roping' strategy, which requires each tree to be supported by a flexible rope that encircles the tree, supporting branches as they come under stress from heavy nut loads approaching harvest. The logic behind this strategy appears sound and is not dissimilar to the propping of Mango tree branches to prevent breakages when trees are young and vulnerable. The goal is to maximise the nut crop while protecting the long-term health of the tree.

Unprecedented heavy rains from 10 to 14 January have resulted in a number of tree deaths due to waterlogging. Overall losses have been estimated at 3%, with the impact varying from 0.5% to 6% across various projects. Actions taken by the management team limited the impact to the extent possible given the difficulty of the situation. Additionally, RMONPRO has now put in place a strategy to deal with similar events in the future.

The six months to March 2011 were among the wettest on record throughout eastern Australia. The Swan Hill horticulture region was no exception, with 545mm of rain falling from October 2010 to March 2011 at Nyah, the closest weather station to the AIL orchards. The annual rainfall for Nyah in 2010 was 620mm (second only to 1973). To put this into context, the mean average annual rainfall for Nyah is only 332mm.

Overall the last five years have been very challenging, but from different ends of the weather spectrum. Within this context RMONPRO has done an excellent job of maintaining the orchard. The cyclical nature of weather will continue to throw up challenges, which must be managed. Investors in the 2011 Project need to be cognisant of the risks that are posed by climatic events and the ability of such events to have a negative impact on the productivity of their almond trees.

### Site selection

The property on which the Project will be developed is located adjacent to AIL's previous almond orchard developments at Piangil, approximately 45km north-west of Swan Hill, Victoria. The site was chosen for its proximity to water and power, suitable climate and soils, and its location relative to a skilled workforce. The site was selected by AIL and RMONPRO Executive Director, Graham Johns.

### Region and climate

The Murray Valley in north-west Victoria is considered to have a highly suitable climate for almond production, a crop that enjoys a Mediterranean style climate with warm, dry summers and relatively mild winters. The district is a long-established horticultural zone and is well supplied by supporting infrastructure and labour.

According to the independent expert, frost and hail present the most serious climatic risks to almond orchard profitability in the region. Frost events are of most concern for almond production between August and October, from bud burst to nut set, and are particularly threatening in low-lying depressions where cold air accumulates. For this reason, higher risk areas on the properties will be excluded from planting. AIL has indicated that, while the orchard has not been affected by frost since planting, it is predicted that there will be years during the life of the Project where yields are reduced as a result of frost. Other climatic risks identified by the Independent Expert in the region include excessive heat and strong winds.

Pest and disease pressure for almond trees in the region tends to be low due to sound management practices and the dry climatic conditions. Weeds are a common threat to the early development of an orchard and can significantly inhibit early tree productivity. Bird damage to the almond crop is a constant threat, and is actively managed through a combination of control methods.

### Irrigation water provisions and purchase strategy

Orchard irrigation water will be sourced via main lines from the Murray River under the administration of the Lower Murray Urban and Rural Water Authority. The orchard is located in trading zone seven, which stretches between Barmah and the South Australian border. Irrigation will be supplied to the orchard via a fully-automated 10.8mm/day Netafim drip irrigation system, with integrated fertigation and soil moisture monitoring systems. The independent expert has estimated that the 280ML dam which will service the Project orchard will provide sufficient on-site reserve for approximately four days of usage when the trees reach maturity.

AIL has predicted that a mature water budget of 12.5ML/ha will be required to achieve estimated Project outcomes. While 12.5ML/ha is the generally accepted irrigation budget for modern almond orchards in the Murray Valley, the soil surveyor has commented that in years of extremely hot weather the annual irrigation

requirement for these sites would be greater, necessitating the purchase of additional water to maintain full crop potential.

RMONPRO has developed a series of water budgets, which are used as a guide when scheduling irrigation. The Independent Expert has stated that the proposed 'full' water budget is in line with other developments in the region. RMONPRO also has two additional water budgets that will be adopted during periods of reduced allocations. The 'minimum for tree growth' budget has been adopted by RMONPRO during recent periods of reduced allocations, and provides enough water to the trees to ensure reasonable yields as well as some tree growth. The 'minimum for tree health' budget is the amount of water RMONPRO estimates a tree needs to survive, which will result in little to zero almond yields and tree growth. This level of water application can maintain a tree until allocations increase, without significantly affecting long-term tree health. The full water budget is outlined below.

#### AIL Water Budget (ML/ha)

Project Year	Full Water
One	4.0
Two	5.5
Three	8.0
Four	10
Five	12.5
Six onwards	12.5

As RE of the Asset Trust, AIL intends to acquire 1.56ML of water per Allotment (12.5ML/ha) in a mix of permanent water shares or temporary water allocations. It is anticipated that this water will be acquired in line with the water budget illustrated above.

AIL has also indicated that it may enter into long-term lease arrangements for water shares if it is deemed to be economical and in the best interests of investors.

The decision of whether permanent or temporary water is purchased by AIL will depend on prevailing prices, which rely on the allocations and the availability of water shares. In the early years of the Project, AIL has indicated that due to the seasonal variation in the price of permanent water shares, it may be in the best interests of the Asset Trust to purchase temporary water on an annual basis, delaying the purchase of permanent water shares to a later date when it is deemed to be more economical. AIL has stated that it may even be in the best interests of investors to always use temporary water allocations, with the Asset Trust never purchasing any permanent water shares.

One benefit of purchasing temporary water over permanent water is that the market for permanent water shares is currently quite restricted, with relatively low trading volumes and comparatively high market prices. This is due to both the 4% p.a. cap on the trading of permanent water shares out of any irrigation region in the Murray-Darling Basin, and the presence of the federal government as a buyer for environmental purposes. Another benefit of purchasing temporary water is the increased certainty, where the purchase of 1ML entitles the purchaser to use 1ML, rather than being dependent on seasonal allocations, which is the case for permanent water shares.

***The use of temporary water in the short-term is acceptable, due to current price of permanent water and the difficulty in obtaining appropriate finance for the large-scale purchase of permanent water shares. However, Adviser Edge believes that a long-term strategy of securing permanent water shares is prudent to reduce exposure to volatile temporary water prices. While the Asset Trust does not own permanent water shares, the Grower Project will remain 100% exposed to fluctuations in the temporary water price, through the adjustable component of the sublease fee.***

***Regardless of whether AIL does decide to purchase permanent water shares at some stage in the future, by not securing permanent water shares at Project inception, the Project is at risk of further increases in permanent water prices over the long-term. However, securing permanent water shares still exposes the Grower Project to the cost of temporary water (at an additional cost to the Grower Project) in years of reduced allocations.***

#### **Murray-Darling Basin System update**

For much of the past decade drought has plagued south-eastern Australia, with water security now a primary issue in the majority of irrigation districts within the Murray-Darling Basin. While ongoing water security within the Basin is still a significant political issue, conditions across the Murray-Darling Basin significantly improved throughout the course of 2010, with above average rainfall experienced in the majority of districts and main catchment areas. Although the improvement in water availability has led to higher allocations and lower prices for temporary water, the federal government's water buy-back scheme continues to exert pressure on all irrigation systems through increased demand for water shares and artificially inflated prices.

There are two main types of water shares issued on the Murray system. High reliability water shares (HRWS) and low reliability water shares (LRWS) are classed according to the frequency with which full allocations are expected to be available. The main difference is that LRWS are only allocated once HRWS have reached full allocation (100%).

The irrigation season generally runs between 15 August and 15 May each season, with allocations starting at low levels. Additional allocation announcements are made throughout the season. Allocations depend on a range of factors centred around water availability, with inflows into the catchments and resulting storage levels the main criteria. As a result, allocations rely heavily on rainfall in the catchment areas between July and September, which are typically the highest yielding months of the year.

HRWS holders on the Murray irrigation system have historically received 100% allocations, with the 2006-07 irrigation season being the first year where final allocations fell below this level, at 95%. Due to the drought and the significant drop in resulting inflows, the 2007-08 and 2008-09 irrigation seasons saw HRWS holders receive final allocations of only 43% and 35% respectively. However, HRWS holders on the Murray system welcomed a return to 100% allocations at the end of the 2009-10 season, signalling an improvement in conditions and water availability.

Above average rainfall over the Murray-Darling Basin catchments in the second half of 2010 and the unprecedented summer rainfall at the beginning of 2011 has resulted in inflows above those experienced in recent years, with the two main storages supplying the Murray system, the Hume Dam and the Dartmouth Dam at 92.8% and 62.43% of capacity respectively on 5 April 2011. This is in stark comparison to the level of water in storage in the 2009-10 season, with the two dams at only 16.2% and 31.5% of capacity respectively at the same time last year.

The significant improvement in water availability meant that 100% allocations for HRWS holders on the Murray system were announced at a more traditional time, in mid-October 2010, allowing irrigators to utilise their entitlements in the critical summer months. In addition to this, the fact that the main storages still contain a significant amount of water coming into the typically high-yielding winter months means that full allocations are likely for the 2011-12 season, with high allocations in the 2012-13 season also increasing in likelihood. However, it is very difficult to make accurate predictions about future allocations.

#### **Nursery supply and almond varieties**

The three almond varieties to be planted as part of the Project are Nonpareil, Carmel and Price. The orchard will be planted on a 1:1 pollinator to main variety ratio, with Carmel and Price the pollinator varieties. The varieties have been selected due to their complementary pollination and harvest cycles and market appeal. Nonpareil is the most widely-grown almond variety in the world because of its relatively consistent bearing nature and strong market acceptance. Carmel is a pollinator that is sold both as kernel and manufacturing product, and to a lesser extent in-shell. It is highly productive when young and is second only to Nonpareil in popularity worldwide. Price is a small but significant pollinator because it blooms within a day or two of Nonpareil. Nonpareil

will be planted in every second row, with Carmel planted in every alternate row, except for every sixth row, which will be planted to Price.

AIL has advised that planting stock will be sourced from Growtek Pty Ltd. Budwood sourced from the Almond Board of Australia's facility located at Monash in South Australia will be grafted onto Nemaguard rootstock.

#### Almond Varieties

Variety	Percentage
Nonpareil	50%
Carmel	33%
Price	17%

#### Site development

AIL has engaged Horticultural Development Services Pty Ltd to undertake the necessary site preparation and planting operations. The Project orchard will be developed on a 7.25m x 4.29m grid, resulting in approximately 321 trees per hectare. In accordance with the ATO Product Ruling, AIL is required to plant 40% of the Project trees by 23 June 2011, with the balance to be planted by 30 September 2011.

Parts of the site will require soil amelioration prior to planting, including mounding to increase the soil depth, applying gypsum, and ripping. Areas that are considered to be unsuitable for planting due to soil quality are generally cropped by a local farmer in return for maintaining a weed-free environment.

**Adviser Edge believes that the development works undertaken as part of previous offers have been completed to a high standard. The young trees have been established well in line with industry best practice, and were growing strongly when inspected on 2 April 2011.**

#### Project infrastructure

In addition to infrastructure developed specifically for the Project, the Project orchard will benefit from shared infrastructure servicing existing orchards managed by AIL. This includes the use of the irrigation computer network, buildings, and machinery. This property also has access to mains water.

#### Harvesting

The harvesting of the Project orchard will be conducted by RMONPRO. Harvesting generally begins in mid-February with the Nonpareil variety, and continues through until April, with the Carmel variety generally maturing the latest. Rainfall and water logging have significantly delayed harvesting in 2011. However, this is expected to be an isolated occurrence.

Harvesting of the almond orchard is completely mechanical. Prior to harvest, the orchard floor is cleared and levelled (if necessary) to provide for easy collection of the nuts. Trees are shaken to remove the nuts from the trees. The nuts are then swept into the centre of the inter-row where they are collected by the almond harvester.

All harvesting machinery and labour will be supplied by RMONPRO and its sub-contractors. Once harvested, the almonds will be road freighted to Simarloo's cracking and hulling plant at Lyrup, South Australia, prior to being transported to Almondco's final processing and packaging operations at Renmark, South Australia.

**An efficient harvest is highly desirable, as delays increase the risk of almonds being damaged due to rainfall. The Simarloo cracking and hulling plant has drying facilities, which are available for use in the event of harvested almonds being wet. Additionally, AIL needs to continue to be cognisant of the requirement to have excess harvesting equipment capacity throughout the orchard's lifecycle. This considers the potential for rain and breakdowns to affect harvesting capacity. In Adviser Edge's opinion, it is better to err on the side of being over capitalised in harvesting capacity given its importance to profitability.**

### Market Overview

Product type	Almonds
Primary use	Food or food ingredient
Key target market	Domestic and export
Major Competitors	Select Harvests Limited, Riverland Almonds Pty Ltd, and foreign exporters (particularly Californian)
Product Sales Agreements	Crop supply contract with Almondco Australia Limited to process and market almonds produced as part of the Project

### Marketing strategy

AIL has entered into an Almond Crop Supply Agreement with Almondco Australia Limited (Almondco), which covers the current Project as well as past and future projects offered by AIL. Under the agreement, AIL, as RE for the almond projects, is to deliver dry, cleaned and hulled almonds to Almondco's processing facilities in Renmark, South Australia. Almondco will in turn process, market and sell the almonds into domestic and export markets. The agreement expired on 30 September 2009, although the agreement automatically extends on a year-by-year basis, unless one of the parties terminates it.

Project almonds will be graded and sorted by Almondco with reference to variety, size, colour and quality, with prices to vary accordingly. Almonds are then likely to be pooled with those of other Almondco suppliers and may undergo value-adding processing such as roasting, blanching, slicing or flavouring. The almonds will then be marketed through domestic and export wholesale distribution channels. Almondco will deduct a processing and marketing cost from sales receipts, as well as any other reasonably incurred expenses and capital expenditure contributions. Under the agreement, almonds remain the property of the Grower until sold to a third party.

Almondco targets both the domestic and export markets, with approximately 80% of its output currently sold into the domestic market. This figure has decreased in recent years, and is expected to continue falling as Almondco increases its presence in export markets in order to service recent growth in its contracted supply base.

***Adviser Edge has reviewed the marketing strategy employed by AIL and believes that it provides a secure avenue to market by industry standards, as well as allowing the Project access to Almondco's experience in processing almonds, and its established distribution channels. Almondco's company structure, whereby its suppliers are also shareholders in the company, also acts to align company objectives with those of its suppliers.***

### Key Points

- AIL has entered into a processing and marketing agreement with Almondco for all almonds produced under the Project.
- Global almond production is dominated by California, although Australian processors and handlers are expected to play a greater role in export markets in coming years as recent plantings approach maturity.

### Almond market overview

Californian growers and processors dominate the global almond industry, with Californian almonds accounting for approximately 80% of world production in 2010. (ABC, 2010) The dominance of the Californian industry on world markets means that the global almond price is set in US dollars. This effectively exposes other producers around the world to fluctuations in the respective currency against the US dollar. Prices are generally quoted for a base quality and size of almonds, Nonpareil Select Sheller Run (SSR) 23/25.

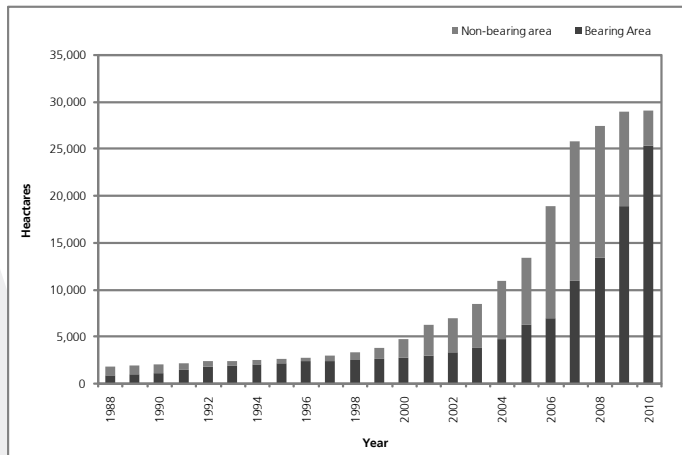
The Australian almond industry currently accounts for around 3.5% of world production, and relies on high average quality of production, counter-seasonal trade patterns, and proximity to Asian markets to develop and sustain domestic and export markets. While Australia has historically been considered as a niche producer of almonds, the growth currently experienced by the industry is expected to put Australia in more direct competition with the United States. The industry's rapid expansion means that it is one of the fastest growing horticulture sectors in Australia, and on a percentage basis Australia is the fastest growing almond industry in the world. (ABA, 2008)

Australia's almond estate grew significantly in the six years to 2008, with plantings of over 20,000ha completed during this period. The level of new almond plantings peaked in 2007 when a record 6,874ha was established. The growth in new plantings decreased significantly in 2009 due to the collapse of two of the largest MIS promoters, Timbercorp Limited and Great Southern Limited, which led to lower MIS sales, and concern over water security.

As a result of the increased levels of plantings in recent years, Australian production has risen by around 50% in the last two years, with a further 126% increase anticipated to occur by 2016 as young non-bearing plantings begin to reach maturity. (ABA, 2011)

The United States industry has also experienced significant growth in new almond plantings. Californian production has increased by over 100% since 2000, with production totalling approximately 638,000 tonnes in 2009. (ABA, 2009) Although planting activity has declined from the highs experienced during 2006 and 2007,

**Australian almond estate**

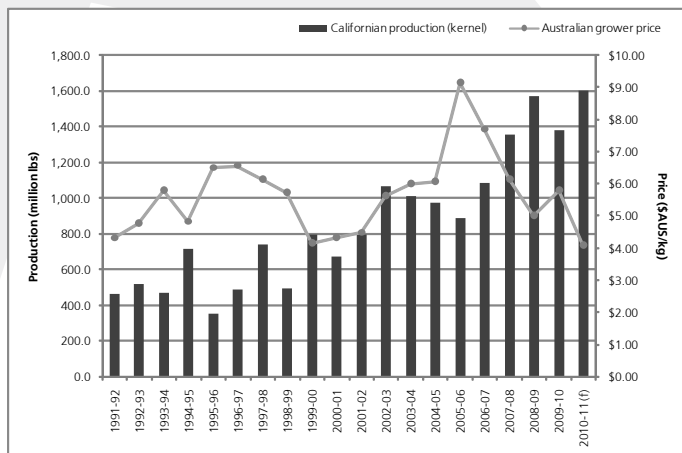


non-bearing acres still represent an estimated 11% of the total 810,000 acre Californian almond estate in 2009. (USDA, 2010)

In the southern hemisphere, Chile is a significant supplier of kernel to Europe and South America, and in-shell almonds to India. The Chilean industry is relatively unproductive by world standards and its development may be constrained by competition for suitable land from other horticultural crops.

Besides California, southern Europe is the next most important almond-producing region, with Spain, Turkey and Greece being the major suppliers. Spain is currently the world's second largest producer of almonds, accounting for around 10% of global production in 2009-10. (USDA, 2010) Production in these regions is generally less advanced, with a limited proportion of orchard area under irrigation, and the bearing area is fragmented into much smaller average farm sizes with typically lower planting densities.

**Californian almond production and average grower prices**



Global almond prices tend to be set by the level of Californian production, and as a result the AUD/USD exchange rate has a significant impact on the price received by Australian producers. Australian producers are price takers as opposed to price makers.

Subsequently, Australian prices have a tendency to cycle in line with changes in Californian supply and can vary considerably from year to year.

The domestic market has traditionally been the largest market for Australian almonds. However, exports to more than 40 countries now account for around 60% of almond sales each year on average, with the majority exported as shelled almonds. The major importers of Australian almonds include the United Arab Emirates, New Zealand, Germany, the United Kingdom and Spain, with India recently emerging as Australia's largest single export market.

The domestic almond market has also grown, with Australian almond consumption continually increasing. Importantly for local producers, around 90% of almonds sold in Australia are produced domestically.

Almond demand is considered to be price inelastic in the major international import markets, implying that world almond prices are sensitive to imbalances in supply. This characteristic of almond markets provides some explanation for the cyclical nature of historical prices, particularly given the lag between planting and the commencement of production. Consequently, it is important to continue to stimulate global consumption growth in order to mitigate the effects of any imbalances in supply and resulting price fluctuations.

It is important to note that Australia is recognised as being a producer of high quality almonds. Almond quality is largely determined by the variety, size, colour and condition of the kernel. Prices are generally higher for varieties with strong market acceptance and good processing attributes, such as Nonpareil, which currently accounts for over 50% of Australian plantings.

**Almond market outlook**

World almond consumption has more than doubled over the past decade, with demand growing at an average rate of 9% p.a. since 2000. It is expected that the global demand for almonds will exceed available supply within five years. This increase in global demand is reflected by the fact that California has experienced a record level of exports for a third consecutive year.

As global demand continues to increase, at the same time it is anticipated that Australia will overtake Spain as the world's second largest almond producer by 2015.

Australian producers are expected to find themselves in greater competition with other major producers as world production continues to expand. For this reason, local producers and processing companies will need to continue to increase market share in key export markets, particularly as Australian production increases. It is thought that the Australian industry can mitigate the effects of production growth and increased competition by continuing to produce almonds of higher than average quality.

The development of a generic brand for locally produced almonds, Australian Fresh, by the ABA and Horticulture Australia Ltd, will allow Australian produce to be distinguished from Californian almonds in particular. This will assist the industry in capitalising on counter-seasonal and quality advantages. The extent to which product differentiation can be achieved in almonds is yet to be fully determined, and is potentially limited by the fact that many consumers hold a homogenous view of the product.

A considerable expansion in world almond supply into the next decade has the potential to result in a cyclical global supply imbalance, which would ultimately result in lower prices. However, the continued growth in world demand has the potential to mitigate this, with demand anticipated to outstrip supply in the coming years. The uncertainty surrounding future levels of world demand and the relevant exchange rates make it difficult to accurately predict future levels of Australian almond prices.

The following section provides an analysis of the potential investment returns for the Project. Please note that this analysis is based on estimated performance assumptions, which may change over the Project term. Investors need to be aware of the way in which these assumptions may influence investment returns, and should seek additional professional advice to determine whether or not this investment is suitable for their own risk and return objectives.

Adviser Edge Returns Modelling		
	Pre-Tax	Post-Tax <sup>2</sup>
Adviser Edge Base Case	5.10%	7.10%
IRR Range <sup>1</sup>	3.70-9.50%	5.70-11.10%
Median Return	6.70%	8.50%
Percentage of results that are break-even or better	93.13%	95.61 %
Percentage of results with an IRR of 10% or better	16.98%	31.21%

<sup>1</sup> The IRR range represents the range of results that occur within the 20th and 80th percentile in the simulated model. The range is based on Adviser Edge’s modelling of potential outcomes for the Project using Monte Carlo simulations. These are subject to a number of limitations, which are discussed further below. Accordingly, the range is provided as a guide only. Investors should seek additional professional advice regarding the impact of changes in key variables on Project returns given their individual financial circumstances. The analysis does not consider investor finance arrangements.

<sup>2</sup> This analysis assumes a 46.5% marginal tax rate for the Grower Project and assumes that the Asset Trust is held in a self managed super fund with a tax rate of 15%. The analysis assumes that investors are registered for GST and that all GST is rebated in the year paid.

<sup>3</sup> The Adviser Edge Base Case return reflects the base return using static investment modeling, based on the key performance assumptions outlined below.

**Scenario testing**

In reviewing the Project, Adviser Edge has undertaken scenario testing of potential returns from the Project using Monte Carlo simulations. These have been based on variations of key assumptions relating to price, yield, quality, and the potential for the MIS manager to default or a disaster event to occur, and the relative impact of these events on returns. Investors should be aware of the limitations associated with scenario testing. The model used incorporates a number of subjective judgements made by Adviser Edge, which may not be empirically verifiable and does not include all the variables that affect returns. Accordingly, the predictive capability of financial modelling is limited. Nonetheless, Adviser Edge believes that the use of such modelling practices provides an improved insight on the risk/return profile of a particular investment when compared with static investment modelling techniques.

Returns modelling undertaken by Adviser Edge suggests that the Project displays a reasonable median internal rate of return of 6.70% on a pre-tax basis, with a higher post-tax median internal rate of return of 8.50%, assuming that the Asset Trust is held in a self-managed super fund.

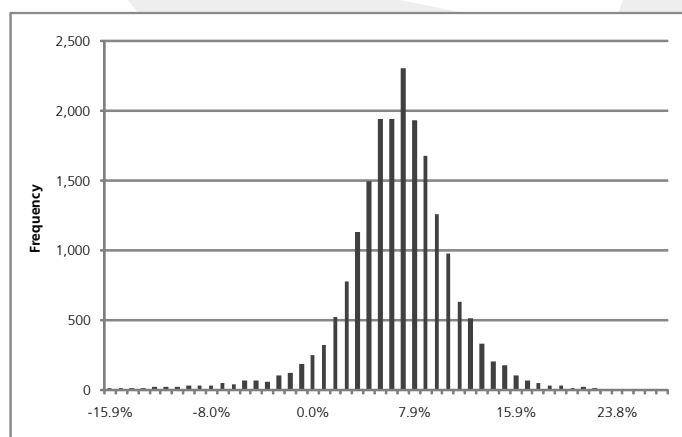
The Project has displayed a strong returns range, with a manager insolvency or uninsured natural disaster event expected to have a minimal impact on returns, due to the Project structure.

There is a greater level of uncertainty surrounding the returns modelling for the Asset Trust compared to the Grower Project, due to the uncertainty regarding the operations of the Asset Trust following completion of the Grower Project.

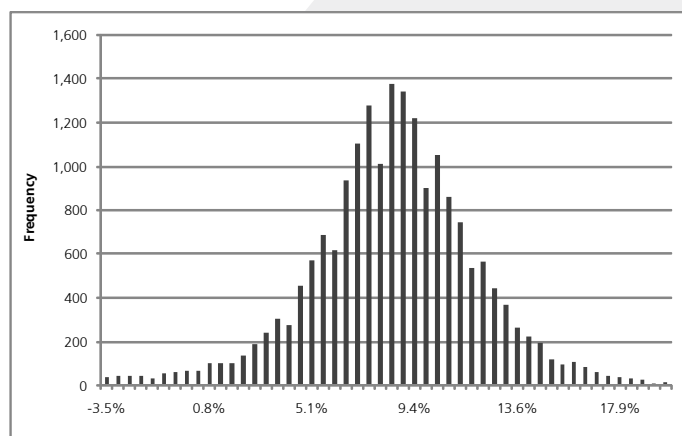
The following graph illustrates the distribution of returns that resulted from Adviser Edge’s analysis.

**Key Investment Analysis Performance Assumptions**

**Pre-tax investor returns**



**Post-tax investor returns**



The estimated Project returns provided by Adviser Edge have been calculated using various performance assumptions. The key assumptions adopted by Adviser Edge and AIL are presented in the following table. These assumptions have been determined from information provided in the PDS, directly by AIL, from the independent expert’s report, and from independent research performed by Adviser Edge. The following table also includes the performance assumptions adopted by AIL.

**Performance Assumptions**

Assumption	Adviser Edge	AIL
Average almond yield (kg/ha)		
Age Three (FY2013)	448	1,152
Age Four	1,520	2,000
Age Five	2,320	3,000
Age Six	3,300	4,000
Age Seven onwards	3,460	4,000
Average almond price (US\$/kg)	\$6.22	N/A
Long-term AUD/USD exchange rate	0.86	N/A
Processing and marketing (\$/kg)	\$1.15	\$1.15
Hulling, cracking and transport (\$/kg)	\$0.47	\$0.27*
Estimated Growing Fee (FY2013)	\$845	\$845
Indexation	2.9%	2.4%
Asset Trust NAV growth	2.5%	2.4%

\* Note: AIL has included the cost of transport from the farm gate in its Growing Fee estimates.

**Almond Yield**

The yield estimates provided by AIL, outlined in the above table, have been scrutinised by the Independent Expert and deemed to be achievable. Actual Project yields are likely to vary around the estimated average yields due to climatic variation, isolated weather events, and the variable bearing nature of almond trees. Yields may begin to decline towards the end of the Asset Trust term, as tree productivity declines with age.

The most significant factor affecting orchard productivity and yield consistency is likely to be orchard management. The experience and capabilities of RMONPRO, and its ability to operate on restricted water budgets when required, is expected to benefit investors.

Flowering is a key stage in the annual growth cycle of an almond tree, and commences in August. The pollination of almonds occurs over a relatively short (two to three week) period, and relies on the use of compatible pollinator varieties as well as honeybees as an intermediary. AIL will prune almond trees in winter to promote the growth of new fruiting wood and to open up the tree to aid pollination and increase light penetration.

The rapid expansion of the Australian almond industry, combined with recent restrictions on beekeeper access to state national forests, has the potential to place strain on the future supply of bees for pollination purposes.

If the supply of bees is not carefully managed at an industry level in coming years to exclude disease threats and to cater for increased plantings, a significant rise in pollination costs and possible decline in almond yields may result. The recent slowing of Australia's almond industry expansion is expected to reduce the strain on bee supplies.

Water availability and management will be crucial to AIL's ability to achieve target yields. Horticulture Australia Limited (HAL) and the Almond Board of Australia (ABA) have recently completed the ninth and final year of the Almond Nutrition and Irrigation Optimisation Trial located at Berri, South Australia. The trials have generated yields 13% higher on average than the industry benchmark of 3.5t/ha of kernel between 2004 and 2009, when applying a pulse irrigation technique similar to a mature water budget (around 11.5ML/ha) and an intensive nutrient program. Yields in the 2008 season were well below average (2.8t/ha and 3.1t/ha for Nonpareil and Carmel varieties respectively) due to heavy winter tree pruning and what was deemed to be an 'off-year' in the trees' biennial cycle. However, yields for the 2009/10 season were an improvement, with the average yield across all varieties and treatments greater than 4.6t/ha. Orchard yields in excess of 4t/ha have been achieved in trials where the water budget was between 10ML/ha and 12.5ML/ha depending on the season.

While AIL has demonstrated its ability to maintain yields on reduced water budgets, it should be noted that R&D trials are still in their relative infancy, and that the commercial application of management practices and the long-term sustainability and incremental cost of such practices is yet to be determined. Nevertheless, results from this trial are expected to feed into improved management protocols in coming years, and to maintain Australian almond growers at the forefront of the international industry.

Adviser Edge has adopted more conservative yield estimates for investor cash flow modelling purposes than those adopted by AIL. While Adviser Edge considers that AIL's PDS target yields are achievable, demonstrated by the yields achieved in the HAL Optimisation Trials, these yields are yet to be displayed consistently across a commercial orchard in Australia.

The yield estimates adopted by Adviser Edge are in line with peer estimates, and allow for annual variation due to seasonal events. It should be noted that these yields are based on access to the full water budget at maturity, although it can be expected that there will be years of reduced water availability going forward. Lower water allocations may result in lower mature yields, and Adviser Edge has considered this potential downside risk to yield estimates when determining indicative IRR ranges.

***Adviser Edge has adopted more conservative yield estimates than AIL's PDS targets.***

## Past performance

AIL developed its first almond orchard in 2004, and has since developed approximately 1,200ha of almond orchards.

With respect to the 2004 Project, yields in the first four years of production were below initial PDS targets. Yields for the 2011 harvest are yet to be finalised, but based on deliveries to date and harvest estimates they are expected to be below PDS estimates, due to the poor yields for the Nonpareil variety, which was an industry-wide issue.

Yields for the 2005 Project were above PDS targets in 2008 and 2009, despite operating on restricted water budgets. However, the 2010 crop fell below the PDS targets, with the final yield for 2011 expected to do the same.

The first two harvests of the 2006 Project have yielded significantly above initial PDS targets.

The first harvest for the 2007 wholesale and retail projects occurred in 2010, with both experiencing yields in excess of PDS forecasts.

Due to the poor flowering experienced by the Nonpareil variety resulting in lower than expected yields, which is an industry-wide issue, it is anticipated that all previous projects will fall short of PDS targets this year.

While the performance of past AIL projects has been reasonably sound, it is important to note that only the 2004 Project orchards have reached maturity, and therefore the ability to consistently achieve the mature yield estimates is still uncertain. However, given the performance to date, it can be expected that, as the trees occupy the site, mature yield estimates will be achievable.

AIL has been able to keep operational costs close to initial estimates for the 2004 to 2007 Projects, which are past the initial fixed cost period. This is despite a period of high fertiliser and herbicide prices, as well as reduced water allocations and associated higher water costs.

## Almond Quality

It is generally accepted that Australia produces almonds of high average quality. Almond quality is largely determined by the variety, size, colour, and condition of the kernel. Prices are generally higher for varieties with strong market acceptance and good processing attributes, such as Nonpareil, and for kernels without any apparent damage, deformities or discolouration.

In years of below average quality, the marketability of almonds may be reduced or processing costs may increase, lowering the net return to investors. Rain prior to harvest can increase the moisture content of the kernels, which may consequently require

kiln drying prior to preliminary processing. Tree yields can also affect almond quality via the kernel size, with kernel size tending to be smaller when tree yields are high. Price differentials between kernel sizes can be significant in years where the Californian crop has a high percentage of small sizes and larger sizes are relatively rare.

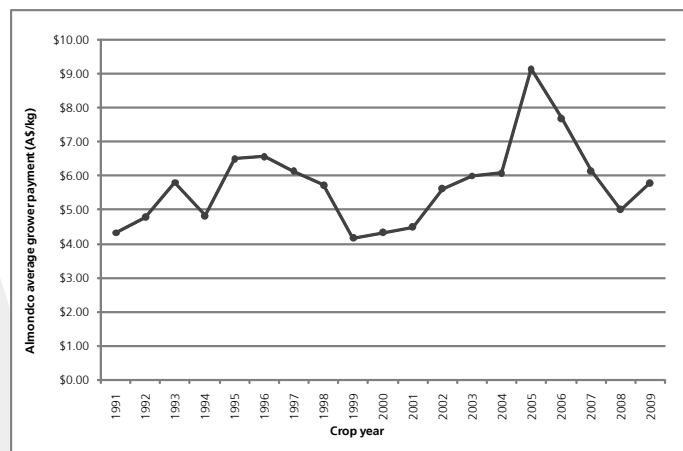
***Australian almonds are generally recognised for their high average quality, associated with generally good growing conditions and the relative lack of pest and disease pressures present in the local industry. As such, Adviser Edge sees no reason to suggest that almonds produced from the Project orchard should not also achieve a high average level of quality. Some annual variation in this parameter can be expected, as demonstrated by the below average kernel size achieved across the industry from the drought-affected 2008 harvest.***

## Almond Price

AIL has estimated an average almond wholesale price of \$8.00/kg of kernel in 2011 for investor cash flow modelling purposes. This price has been indexed annually over the life of the Project in line with AIL's long-term inflation assumption of 2.40% p.a. The price assumed by AIL is the price paid by a third party to Almondco, and does not take into account processing and marketing costs, which AIL has assumed at \$1.50/kg of kernel. AIL's price estimate accounts for variations in price between the various varieties.

Almond prices achieved by Australian growers are dependent on a number of variables, most notably California's annual marketable almond production, and the AUD/USD exchange rate. As can be observed in the following chart, Australian almond prices can vary considerably from year-to-year, and have a tendency to cycle in line with trends in these variables. The following chart shows the history of average grower returns paid to suppliers by Almondco over the past 19 years. These prices are net of final processing and marketing costs, but not cracking and hulling costs. The figures represent seasonal average selling prices across all quality grades and varieties marketed in each year. By adding estimated final processing and marketing costs, an approximate wholesale market price can be determined. As a guide, Adviser Edge has estimated final processing and marketing costs (including cracking and hulling costs and levies) to be \$1.50/kg in Project year zero (FY2011).

### Californian almond production and average grower prices



Record prices were achieved by Australian growers for the high quality 2005 crop, following a sustained period of consumption growth and a short crop in California. More recently, prices have retreated somewhat from their elevated level in 2005 in response to some market resistance to high price levels and large crops in California. Prices for the 2009 crop (sold over the 2009-10 marketing year) improved slightly on the 2008 crop, despite the appreciation in the AUD/USD exchange rate.

Although an expansion in global almond supply over the next decade has the potential to result in a cyclical expansion in global inventory levels, growth in global almond consumption is expected to continue at a greater rate, offsetting any increased supply. Other factors mitigating a potential supply imbalance for domestic producers are the high average quality of Australian almonds, and downward movements in the AUD/USD exchange rate.

Significant difficulty is inherent in predicting simultaneous movements in the world almond price and AUD/USD exchange rate over the 30-year investment term, and investors should be aware of the potential for these factors to lead to significant price volatility.

The recent appreciation of the Australian dollar relative to the United States dollar has resulted in a marked fall in the price of almonds in Australia. As a result, Adviser Edge has based its analysis on a base price denominated in USD, and applied varying exchange rates and appropriate conversion factors to determine a wholesale price denominated in AUD.

Adviser Edge has adopted a long-term base almond price of US\$2.79/lb of kernel, based on average historical prices for the varieties to be planted in the Project. This long-term estimate compares to the recent trading price of the Nonpareil Supreme 23-25, which was trading at approximately US\$2.15/lb in March 2011.

To convert the base US price to an Australian wholesale price, Adviser Edge has adopted a short-term AUD/USD exchange rate

estimate of 0.94–1.02, with a longer-term forecast AUD/USD exchange rate of 0.98. Given the inherent uncertainty involved in forecasting exchange rates, Adviser Edge has adopted a range of variables for investment modelling purposes.

**After considering historical price trends and exchange rate forecasts, Adviser Edge has adopted an almond price of \$6.10 in the short-term, and a long-term price of \$7.23. Variations in the exchange rate and the base almond price have been incorporated into the investment modelling process.**

The price estimates adopted by Adviser Edge are above recent average Almondco grower payments, but are believed to be appropriate given the long-term nature of the Project, and the movement towards an export-dominated market for almonds produced in Australia.

Adviser Edge has indexed the base almond price at the long-term forecast inflation rate of 2.9% p.a. Sensitivity analysis conducted around this assumption reflects the potential for changes in the price inflation to affect investment returns.

#### Processing and marketing costs

Adviser Edge has assumed processing and marketing costs charged by Almondco of \$1.15/kg of kernel, as advised by AIL. Adviser Edge has assumed hulling and cracking costs, as charged by Simarloo, of \$0.27/kg of kernel, and transport costs of \$0.20/kg, in order to determine the net price paid by Growers. Statutory levies and grading charges of \$0.08/kg of kernel have also been taken into account.

#### Growing fees

Investors will be exposed to the actual costs of operating the Project orchard from Project year three (FY2014) onwards through the Growing Fee. AIL has estimated an orchard management cost of \$845 (excluding GST) per Unit in Project year three, increasing in line with CPI.

It is expected that the Growing Fee will increase if the Grower Project is required to purchase temporary water during times of reduced allocations.

**Adviser Edge believes that AIL's estimated operating costs are reasonable. However, should the Asset Trust purchase permanent water shares, years of reduced water allocations may require the purchase of temporary water to be passed on to investors as part of the Growing Fee, resulting in a significant increase in the estimated Growing Fee.**

**Should the Asset Trust continue to rely on temporary water, any significant increase in the cost of temporary water will be passed on to investors as part of the variable component of the sublease fee.**

Adviser Edge has adopted AIL's estimated Growing Fee for Project years three to six (FY2014 to FY2017). However, Adviser Edge has adopted slightly higher operational cost estimates when the trees reach maturity. Adviser Edge has based its operational cost estimates on industry standards, which provide an appropriate measure with which to compare peer projects. Growing Fee estimates are exclusive of transport, processing and marketing costs. Ongoing operational costs are likely to be heavily affected by fertiliser and herbicide costs, yields (increased harvesting costs), and any requirements to purchase additional temporary water. To reflect this expected variability, Adviser Edge has included a range of cost estimates when modelling investment returns.

#### **Asset Trust capital structure**

AIL does not intend to obtain finance on behalf of the Asset Trust, until such time as it becomes required. Initially, temporary water will be purchased using lease income to supply the necessary amount of water to the Grower Project under the lease agreement.

The capital structure of the Asset Trust is not fixed, to enable the Asset Trust to purchase either temporary water allocations or permanent water shares, or enter into a long-term lease arrangement. AIL has indicated to Adviser Edge that the Asset Trust may purchase permanent water shares depending on the prevailing price of temporary water and permanent water shares, and the availability of necessary finance.

However, at present, AIL has indicated that it is most likely that only temporary water will be purchased to supply the orchard's requirement throughout the term of the Grower Project and Asset Trust. As a result, Adviser Edge's base case assumes that no permanent water shares are purchased by the Asset Trust.

Adviser Edge has also assessed the impact on investor returns of purchasing permanent water shares. In the event that permanent water shares are purchased at some stage, Adviser Edge has assumed that the Asset Trust will borrow externally to purchase permanent water shares in Project year five. While it appears that the purchase of permanent water shares would result in slightly higher returns, this would be highly dependent on prevailing water allocations and temporary water prices.

#### **Asset Trust Distributions and Unit Values**

The final value of Asset Trust assets and any liabilities when unit-holders elect to wind up the Asset Trust will depend on a range of factors, including the prevailing market conditions for almonds, orchard productivity at the time of the sale, the condition of orchard infrastructure, and the markets for agricultural land and water shares in the region.

If the Asset Trust is wound up after 29 years, in 2040, the almond orchard is likely to be declining in productivity and reaching the end of its generally accepted economic life, unless the orchard receives significant capital expenditure to maintain

the quality of the orchard and infrastructure. The degree to which orchard productivity tapers will be largely determined by site characteristics, and by the quality of orchard management and maintenance over the term of the Project. The condition of orchard infrastructure will also depend on the quality of orchard management, and the level of improvement works that are undertaken over the life of the orchard. In the event that permanent water is purchased, the terminal value of Units in the Asset Trust will also be dependent on the Asset Trust's ability to obtain external debt financing to purchase this permanent water.

AIL has assumed that the net asset value of the Asset Trust will increase at a rate of 2.40% p.a. over the 29-year term for investor cash flow modelling purposes. It is expected that, after 29 years, significant capital works will be required for both the irrigation infrastructure and the almond trees.

***An investment in the Asset Trust is a long-term and illiquid investment. The value of the Units held in the Trust at its conclusion will be dependent on a number of factors including tree productivity, the value of land and water shares in the district, the condition of orchard infrastructure, prevailing almond market conditions, and the ability of the RE to negotiate a good sales outcome for investors.***

It is expected that distributions will be paid from the Asset Trust over the life of the Project. During the term of the Grower Project (Project years one to 17), the Asset Trust will generate revenue through rental income. The amount of rental income distributed to investors in the Asset Trust will depend on the requirement to purchase temporary water, as well as any loan repayments, management fees, and any capital works required. It is expected that distributions will be small prior to the Asset Trust obtaining external debt finance, as lease revenue will be used to purchase both temporary and, if possible, permanent water.

Following the termination of the Grower Project in Project year 17, the Asset Trust will continue to manage the almond orchard, and distributions will be generated from the sale of almonds.

As the generally-accepted commercial life of an almond orchard is 25 to 30 years, the Project orchard is likely to be approaching the end of its commercial life at the end of the Asset Trust term. AIL has indicated that, at the end of the productive life of the almond trees (but no later than 30 June 2040), the Asset Trust may raise further funds to replant the orchard, lease the assets to a new almond project, or conduct an orderly wind-up of the Asset Trust and distribute the proceeds to the unit-holders. A Special Resolution of the unit-holders will determine the future of the Asset Trust.

***For investment analysis purposes, Adviser Edge has assumed that the Asset Trust will be wound up after 29 years.***

AIL has determined a terminal value for the Asset Trust based on the cost of the land, water shares, and 50% of the irrigation infrastructure. This figure has been indexed throughout the life of the Project. The cost of tree establishment has been deducted from the terminal value, as it is expected that the trees will be approaching the end of their productive life. The irrigation infrastructure has also been discounted based on its life expectancy. There are a number of different factors which may affect the terminal value of Units in the Asset Trust, including the productivity of the trees, capital expenditure throughout the life of the Project, and the prevailing market conditions for almonds at the time of sale.

**Adviser Edge has adopted AIL’s valuation methodology for investment returns modelling purposes.**

Adviser Edge has assumed a NAV growth rate of 2.4%. Despite the inherent difficulty in forecasting the extent of any appreciation in Project land and water shares over the Project term, the assumption of 2.4% p.a. is considered to be appropriate given that the value of Units in the Asset Trust is likely to be affected by the life cycle stage of the orchard.

The sensitivity analysis suggests that investment returns are relatively less sensitive to variation in the value of Asset Trust assets, largely due to the assumed timing of the asset sale well into the future.

**Other assumptions**

As well as assessing the key variables of yield and price, Adviser Edge has incorporated into the investment modelling the potential insolvency of the Responsible Entity and its expected impact on the Project, the potential for devastation of the Project trees, as well as the potential for additional water costs.

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

The Project is structured in such a way that, in the event of the RE’s insolvency, it is likely that a replacement RE would be appointed. This is due to the incorporation of asset ownership, and ongoing rent and management fees, with the operational costs paid for by investors. As a result, Adviser Edge has assumed that an insolvency event would result in the replacement of the RE at an additional cost to investors in that particular year.

To reflect an unforeseen natural disaster, or a disease or pest event which eliminates ongoing production, Adviser Edge has incorporated a small probability of the Project being wound up early, with no ongoing return to investors.

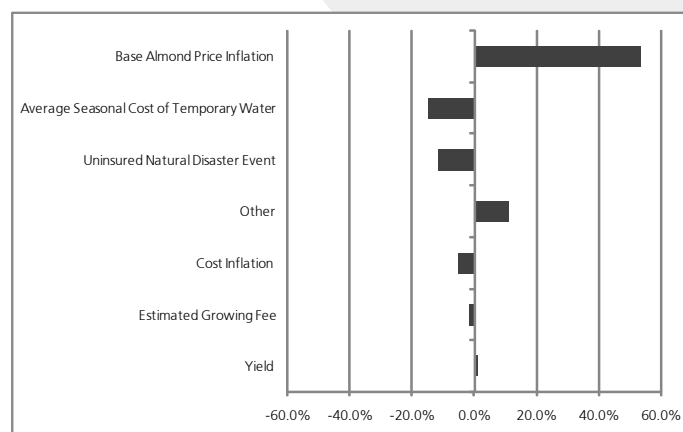
In the event of this occurring, Adviser Edge has assumed that the Asset Trust will also be wound up, with the proceeds of the sale of assets returned to investors.

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

**Sensitivities**

The ability for the Project to achieve key assumptions is a function of both the inherent volatility of the underlying activity as well as assumption risk, which is the accuracy of the initial estimate. Accordingly, the volatility used in Adviser Edge’s modelling depends on the quality of the data supporting the assumptions, and an assessment of the expected volatility of the underlying activity during the course of the Project.

**IRR sensitivity**

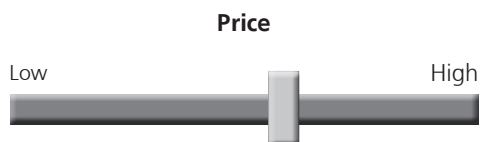


The table on page 25 indicates the resulting sensitivity of investment returns to the various assumptions used in Adviser Edge’s financial model. This table indicates that variations in the base almond price accounted for more than 50% of the variance in modelled returns. As the modelling assumed that the Project will rely on temporary water over the 29-year term, fluctuations in the average seasonal cost of temporary water accounted for approximately 15% of the variance in modelled returns. The inclusion of a natural disaster event which results in the orchard being destroyed accounts for 11.0% of the variance in modelled returns, due to the potentially significant impact that of such an event would have on returns. Annual yield variances and variation in the growing fees and cost indexation rate also have a large impact on the variance in modelled returns.

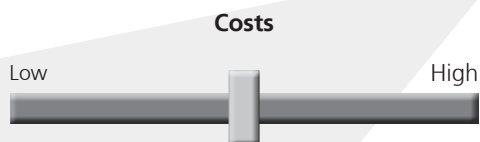


There is expected to be seasonal variation in the average yields achieved from the Project. However there is a reasonable level of information available to support the long-term average yield estimates.

It is expected that seasonal water allocations will have a significant bearing on whether the Project achieves budgeted yields.



Data supporting underlying almond prices is robust, with market data readily available for both domestic and international markets. Almond prices are likely to cycle in line with global production and the AUD/USD exchange rate. The impact of increased supply from Australian producers is unknown, and the price estimates used in the modelling process are largely reliant on exchange rate forecasts. The recent appreciation in the AUD/USD exchange rate has shown how volatile the domestic price can be.



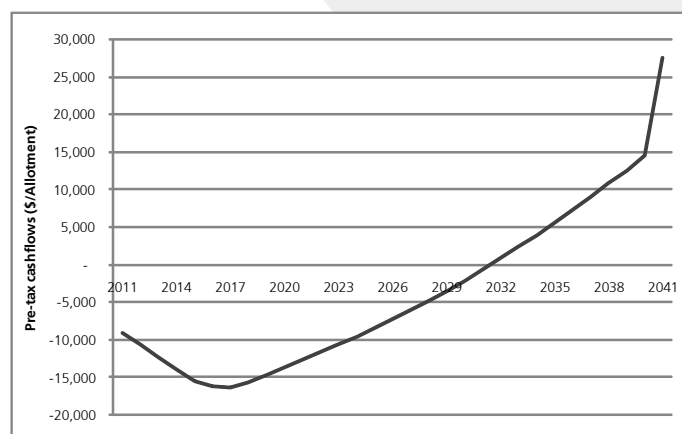
Variations in the Project orchard's operating costs are directly borne by investors. AIL has demonstrated an ability to manage operating costs, with increased water costs likely to have the biggest impact on operating costs invoiced to investors.

### Pre-tax Cash Flow per Unit

The 2011 AIL Almond Project aims to generate investor returns through the establishment, growth, and sale of almonds in the Grower Project, and through the investment in the land, water and orchard infrastructure underpinning the Grower Project through the investment in the Asset Trust. The Grower Project has a term of 17 years, and the Asset Trust has an expected term of 29 years. Returns from the Grower Project are forecast to begin in Project year four (FY2015) with the sale of the almonds from the first commercial harvest (note that almonds are generally sold in the year following harvest), and to continue annually until the end of the Grower Project. The Grower Project is forecast to turn cash flow positive in Project year six (FY2017). Returns from the Asset Trust will be generated from lease income in Project years one to 17, and then from almond sales in Project years 18 to 29. The combined investment is forecast to turn cash flow positive in Project year six (FY2017).

Indicative pre-tax cash flows for the Grower Project and the Asset Trust as a combined investment are presented in the following chart. A cumulative pre-tax cash flow is also shown following. These cash flows have been calculated using the performance assumptions adopted by Adviser Edge.

### Estimated cumulative pre-tax cash flow per Unit



### Post-Tax Potential

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

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

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

Investors in the 2011 AIL Almond Orchard Project will be subject to risks associated with long-term horticulture investments. All potential investors should carefully consider the risks outlined in the Project PDS and specific risks outlined in the Adviser Edge research report.

### **Management, structure and fees risks**

MIS management encompasses not only the operational capabilities of Project counterparties but also the corporate abilities of AIL to monitor operational performance and to meet the regulatory and statutory responsibilities required of it as RE of the Grower Project and trustee of the Asset Trust.

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

As Grower Project management fees are fixed up to and including Project year two, investors are well protected from unexpected overruns in early orchard management costs. Beyond this period, increases in the price of production inputs such as fertilisers, diesel oil, bees and labour at a rate above that of almond sales revenue over the Project term may lead to a disproportionate increase in Project fees relative to Project revenues. The ability of RMONPRO to control orchard operating costs without a corresponding fall in orchard productivity will influence Project profitability over the Project term.

There is a risk that if Asset Trust asset development and maintenance costs exceed expectations, unit-holders may be called upon for an additional capital contribution. While this risk is heightened by extreme events that may damage orchard assets or inflate asset prices such as water shares in times of drought, AIL has managed this risk capably in its previous offers.

If Grower Project revenue declines to unsustainable levels and investors are unable to assume the burden of sublease payments required to service Asset Trust debt, this may inhibit the Trust's ability to operate as a going concern.

The fee structure of the Project, while exposing investors to increases in operating costs from Project year three onwards, provides a level of protection in the event of the RE's insolvency through the incorporation of an annual management fee. In addition to this, the incorporation of asset ownership, through the Asset Trust, means that the risk of the underlying assets being sold in an insolvency event is eliminated.

### **Site selection risk**

There is a risk that the nature of the site selected for the Project may have an adverse affect on estimated Project outcomes. The suitability of a site for a particular agricultural activity is an important determinant of its productivity and profitability.

Soil, climate, water, proximity to labour supply and input suppliers, supporting infrastructure, and markets are all factors that influence site suitability.

Commercial almond production in north-west Victoria is established and operations are well supported by regional resources. The Project site is not expected to present any elevated risk that is otherwise uncommon to the region, provided that proposed management protocols are adhered to. The fact that AIL has previously established almond orchards adjacent to the site to be utilised for the establishment of trees under the Grower Project means that this risk is minimised.

### **Performance risks**

The following risks have been highlighted for their potential to most greatly reduce investment returns. Investors should expect production and market volatility to affect returns over the term of their investment.

#### *Yield and quality*

Almond production is exposed to inherent risks that may affect both yield and quality, including site suitability, seasonal climatic conditions, irrigation water availability, pest and disease outbreak, the availability of key production inputs, and the quality of management practices.

#### *Market forces*

World almond markets have displayed a tendency to cycle in the past in line with fluctuations in supply and demand, and some market volatility is expected to persist into the future. Future trends in the markets for orchard assets such as land and water shares in the district will also have an influence on final Asset Trust asset values and investment returns.

#### *AUD/USD exchange rate*

Fluctuations in the value of the Australian dollar relative to the US dollar over the life of the Project would be expected to affect almond sales receipts. Almondco has indicated that it engages in some currency hedging to reduce exposure to exchange rate fluctuations.

#### *Orchard operating costs*

Inflation in the price of production inputs such as fertilisers, diesel oil, materials and labour at a rate above that of almond sales revenue over the Project term would be expected to lead to a disproportionate increase in production costs relative to Project revenues. The ability of AIL and RMONPRO to control production costs and maximise orchard productivity will influence Project profitability over the Project term.

#### *Interest rates*

Although the capital structure of the investment initially contains no gearing, if, at some stage in the future, AIL decides to raise debt capital on behalf of the Asset Trust, investors will be exposed to fluctuations in market interest rates.

A sustained increase in the prevailing interest rate would raise the level of debt financing requirements of the Asset Trust.

**Marketing risks**

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

There is a risk that the sales agreement between AIL and Almondco may be dissolved or become untenable. AIL will need to maintain a close association with Almondco to ensure that investors' interests continue to be best served and that reporting standards and payment terms are strictly adhered to.

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