

DWL:gr
4 August 2006

The Directors
Pacific Turbine Brisbane Ltd
PO Box 306
HAMILTON QLD 4007

Dear Sirs

EXECUTIVE SUMMARY INDEPENDENT EXPERT'S REPORT

INTRODUCTION

This Independent Expert's Report, which has been prepared by William Buck Securities Limited ("WBSL"), comprises both the report and the Financial Services Guide included with it.

The Directors of PTB have entered into an agreement (referred to as the Proposed Transaction), that subject to due diligence and shareholder approval, PTB will acquire all of the issued capital of IAP Group Australia Pty Ltd (IAP) for \$12.862 million.

The Directors propose that the consideration will be as follows:

1. Cash: \$2.5 million; and
2. Shares: 6,908,054 ordinary shares in PTB at \$1.50 per share ex final dividend for the year ending 30 June 2006.

WBSL has been requested to provide an opinion as to the fairness and reasonableness of the Proposed Transaction to the current shareholders of PTB.

The nature of this report requires that it can only be provided by an entity that holds an appropriate Australian Financial Services Licence. William Buck Securities Limited holds an appropriate licence. Don Langdon, the author of this report is an Authorised Representative of William Buck Securities Limited. The William Buck Securities Limited Financial Services Guide forms part of this report and should be read in conjunction with the report.

Summary and Conclusion

In our opinion the Proposed Transaction is fair and reasonable to PTB shareholders.

The Proposed Transaction is Fair

As the assessed value range per PTB share, upon acceptance and execution of the Proposed Transaction, is equal to, or greater than, the assessed value range per PTB share currently held, we have concluded that the Proposed Transaction is "fair".

The Proposed Transaction is Reasonable

ASIC Policy Statement 75 considers an offer to be reasonable if:

- the offer is fair; or
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher alternative offer.

Given our conclusion that the Proposed Transaction is fair, the Proposed Transaction is "reasonable".

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OTHER MATTERS

An individual shareholder's decision whether to accept the Proposed Transaction should be based on each shareholder's assessment of their own particular circumstances including, but not limited to, their risk profile, liquidity considerations, taxation position and expectations as to value and future market conditions. Prior to making a decision as to whether to accept or not to accept the Proposed Transaction, shareholders in PTB should be aware of, and consider the implications of accepting or not accepting the Proposed Transaction, the terms and conditions of the Proposed Transaction and the future intentions and likelihood of success of PTB, should the Proposed Transaction proceed. Shareholders should seek independent advice.

This Executive Summary should be read in conjunction with the full text of this report which sets out our scope and findings.

We confirm we are not aware of any business relationship or financial interest that would compromise our independence. WBSL does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. Our fee is not contingent upon the success or failure of the Proposed Transaction, and is calculated by reference to time spent at normal professional fee rates for work of this type.

WILLIAM BUCK SECURITIES LTD

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D W LANGDON

Authorised Representative No: 270576

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1. INTRODUCTION

1.1 Background to the Proposed Transaction

Pacific Turbine Brisbane Limited ("PTB" or the "Company") is an Australian company listed on the Newcastle Stock Exchange (NSX). PTB was incorporated on 9 October 2001 to acquire the Brisbane assets of Pacific Turbine Pty Ltd.

The Company's operations currently comprise the following:

- The provision of specialist aircraft turbine engine repair and overhaul services through the Company's facility based at Brisbane Airport, Brisbane, Queensland, Australia (The PTB Repair Business);
- The acquisition, reconditioning and re-sale of aircraft turbine engines and related parts (The PTB Engine Business); and
- The provision of finance facilities to customers of the Engine Sale Business (The PTB Finance Business). The Finance Business includes options for the outright purchase, hire purchase, lease or rental of aircraft engines.

PTB listed on the NSX in March 2005, following the issue of a prospectus and completion of the associated capital raising.

A key part of PTB's business model is to increase its recurring revenue stream from its Financing Business activities. Currently these activities are producing returns of 20% to 30% per annum, including trading engines in the rental pool.

PTB management consider that limited access to sufficient working capital has constrained the company's ability to expand its rental pool to the desired size both in Australia and off-shore. As a result, one of PTB's strategies has been to expand the size of the rental pool through a combination of acquisition and organic growth. The company believes that the larger receivables ledger that will result from increasing the size of the engine rental pool will also enhance financing options.

The PTB Board has identified the business of IAP Australia Group Pty Ltd ("IAP"), as a business it considers suitable for acquisition by the Company. The acquisition is consistent with PTB's strategy because it provides:

- A highly complementary asset management business that has the potential to provide strong returns similar to that of PTB;
- Will enable an increased rental pool through expansion into new aircraft types both with respect to engines and airframes and
- A larger and more diverse business with a highly experienced management team

1.2 Details of the Proposed Transaction

The Directors of PTB have entered into an agreement (referred to as the Proposed Transaction), through which PTB will acquire all of the issued capital of IAP Group Australia Pty Ltd for approximately \$12.862 million.

The Directors propose that the consideration consist of cash and share capital components as follows:

1. Cash: \$2.5 million; and
2. Shares: 6,908,054 ordinary shares in PTB at \$1.50 per share ex final dividend for the year ending 30 June 2006.

2. PURPOSE AND SCOPE OF THIS REPORT

2.1 Purpose

William Buck Securities Ltd (WBSL) has been appointed by the Directors of PTB to provide an Independent Expert's Report (IER) detailing our opinion as to whether the Proposed Transaction detailed above, is "fair" and "reasonable" to the current shareholders of PTB.

The provision of our opinion to the shareholders of PTB is both required and recommended by the Australian Securities and Investments Commission (ASIC).

The requirements and recommendations and ASIC are included in and the Corporations Act 2001 (the Corporations Act or the Act) and Policy Statements 74 and 75 respectively. We have detailed these requirements pertaining to the Proposed Transaction below:

Corporations Act - Section 611

This section of the Corporations Act details the exceptions from the requirements of s606 of the Act which prohibits acquisitions of more than 20% of a listed company's voting shares by way of a scrip issue. The section states the following:

- Such acquisitions are permitted if the shareholders of the listed entity approve the purchase at a meeting where the proposed purchaser and their associates may not vote; and
- The voting shareholders be given all of the relevant information material to the proposal by the Directors of the listed entity. The information required is outlined in Australian Securities and Investments Commission ("ASIC") Policy Statement 74 - Acquisitions Agreed to by Shareholders and ASIC policy statement 75 – Independent Experts Reports to Shareholders, the requirements of which we have summarised in Appendix 1.

Section 611 does not explicitly require the provision of an IER in this regard but states that the obligation of the Directors to provide all of the required information to make an informed decision may be satisfied by the commissioning of an IER considering whether the proposed transaction is fair and reasonable to the non-associated shareholders.

This section is pertinent to the Proposed Transaction as under its terms, the shareholder of IAP will initially receive 33% of the issued capital of PTB.

NSX Listing Rule 6.25

Issue of 6,908,054 new shares in PTB

The issue of further shares in a company is permitted by way of resolution at a general meeting, subject to the terms of the company's constitution. However, NSX Listing Rule 6.25 requires that an entity must not issue, or agree to issue, more than 15% of its ordinary issued shares in a 12 month period, without the approval of the existing shareholders.

Part of the consideration of the Proposed Transaction proposes the acquisition of the shares in IAP though the issue of up to 6,908,054 ordinary shares, with the number of new shares issued subject to approval by PTB shareholders. Such an issue would result in the existing IAP shareholders initially acquiring a 33% interest in the issued capital of PTB. However, it is expected that this interest will reduce to 26% following the further share issues proposed by the company.

The shares to be issued will be ordinary shares, ranking equally with the existing issued shares of the current PTB shareholders, with the exception that they will not be entitled to the final dividend for the year ended 30 June 2006.

We note that the Terms of Listing Rule 6.25 do not require that an IER be provided to shareholders to allow such an issue to occur.

Corporations Act – Section 623(1)

Where the consideration offered under a Proposed Transaction is not cash the extent to which the offer is not a listed security, the offer must detail the value per security of the consideration. This

section also requires that the offer document include an opinion from an independent expert as to the fairness and reasonableness of the Proposed Transaction and outlines their reason for forming that opinion.

As the consideration under the Proposed Transaction includes a non-cash component, our opinion has been sought by the Directors.

Accordingly, this report has been prepared to provide that opinion, assist the Directors of PTB in making a recommendation to shareholders in respect of the Proposed Transaction, and to assist shareholders in their assessment of the merits of the Proposed Transaction. We consent to the provision of our report, in its entirety, for these purposes.

2.2 Basis of Assessment

We have been requested to provide an opinion as to the fairness and reasonableness of the Proposed Transaction to the current shareholders of PTB. The terms "fair" and "reasonable" are not defined by in the Corporations Act or in the the NSX Listing Rules. Instead, guidance as to the meaning of these terms is provided through ASIC Policy Statements 74 and 75 which we have detailed in Appendix 1.

Broadly, the statements detail that assessment of the fairness of a Proposed Transaction is a question of value. The value that which a shareholder would forego under a Proposed Transaction must be less than that the shareholder will received under a Proposed Transaction for it to be considered fair.

The question of reasonableness is required to consider more than value. It must consider all aspects of the Proposed Transaction both financial and non-financial and determine whether the advantages and disadvantages of approving the Proposed Transaction outweigh those of not approving the Proposed Transaction.

2.3 Assessment Approach

In order to assess the fairness and reasonableness of the Proposed Transaction, we have considered:

- a) The market value of 100% of the shares in IAP on a controlling interest basis;
- b) The current market value of the shares in PTB and their recent trading history;
- c) The likely fair market value of the shares in the Consolidated Entity;
- d) The extent to which b) and c) differ in order to assess whether the Proposed Transaction is fair in accordance with ASIC Policy Statement 75; and
- e) The merits of the qualitative and strategic characteristics of the Proposed Transaction, that are relevant to PTB shareholders, to consider its reasonableness.

We have adopted these guidelines to assess the Proposed Transaction. In considering fairness, we have compared the value of the consideration being offered to the value of the shares being acquired. In considering reasonableness, we have assessed other factors of relevance to the shareholders of PTB, including the dilutive impact of the Proposed Transaction.

Based on the above, in our opinion, the Proposed Transaction will be fair and reasonable if:

- the assessed value of a PTB share on a notionally consolidated basis upon acceptance of the Proposed Transaction is greater than the value of a PTB share currently held; and/or
- there are greater advantages for the shareholders of PTB by approving the Proposed Transaction, than not approving the Proposed Transaction.

Our assessment has been made on the financial information available for both PTB and IAP as at 30 June 2006. Our assessment was made at that date, as it is the closest reporting date to the announcement of the Proposed Transaction.

2.4 Reliance on Information

This report has been prepared using information provided by PTB and IAP. We have no reason to believe that the information provided is not reliable and accurate, or that any material facts have been deliberately withheld from us. We have not taken any steps to verify the accuracy, completeness or fairness of the data provided.

Our procedures and enquiries do not include verification work, do not constitute an audit in accordance with Australian Auditing Standards ("AUS"), do not constitute a review in accordance with AUS 902 applicable to review engagements, nor include due diligence procedures normally undertaken in such engagements.

Throughout the course of our engagement, we undertook investigation and enquiry procedures to the professional standard applied to such engagements and practical in the circumstances. We acknowledge however, that some of the information provided to us has not been the subject of external validation procedures.

The information provided to WBSL included financial projections pertaining to the expected performance of IAP and PTB. The use of financial projections and prospective financial information is considered by ASIC in Policy Statement 170 (PS170) in the context of it being used in disclosure documents and Product Disclosure Statements (PDS). Although this report is not such a document, we have considered the parameters of PS 170 as guidance for the use of the prospective financial information provided in this instance. Broadly, the terms of PS 170 allow the use of prospective financial information in public documents in limited circumstances.

Due to the nature of IAP's and PTB's operations, the projections represented best-estimates of the management of IAP and PTB and are largely based on hypothetical assumptions and variables outside their control. For this reason we have not relied on the financial projections alone to arrive at our opinion, but have referred to them in order to gain an understanding of the likely cost structures and business operations of the IAP and PTB businesses.

Other sources of information that we relied upon are outlined in Appendix 2 of this report.

2.5 Indemnities and Warnings

PTB has agreed to indemnify WBSL, its directors and employees from any action arising as a result of misstatement or omissions of information or materials supplied by it, its subsidiaries, directors or employees upon which WBSL has relied. The extent of the indemnity from PTB extends only to information or materials provided by PTB, its subsidiaries or employees.

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly, subsequent to the issue of this report, our conclusions and opinions may differ from those stated herein. There is no requirement for WBSL to update this report with information that may become available subsequent to the date of this report.

The statements and opinions given in this report are made in good faith and in the belief that such statements and opinions are not false or misleading.

2.6 Disclosure of Interest

WBSL has had no previous engagement with PTB, IAP, any of their associates, or any other party to the Proposed Transaction other than providing an Independent Expert's Report with respect to the financial forecasts included in PTB's prospectus. We believe that there is no previous relationship to suggest that this engagement would constitute a business relationship or financial interest of a material nature with any party to the Proposed Transaction that would compromise our impartiality.

Our fee is calculated by reference to time spent at normal professional fee rates for work of this type. The fee charged for the preparation of this report was approximately \$25,000. WBSL does

not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion.

2.7 Key Assumptions

In arriving at our opinion, we have relied on certain assumptions regarding both PTB and IAP. Where these assumptions have been material in arriving at our valuation opinion, we have highlighted these in the body of our report.

3. THE AUSTRALIAN AIRCRAFT MANUFACTURING INDUSTRY

In the course of arriving at our assessment of the fairness and reasonableness of the Proposed Transaction, we have considered the business environment that the Consolidated Entity will operate in.

The primary activity of the Consolidated Entity will be the trading and reconditioning aircraft parts, and the sale or lease of aircraft and aircraft engines. Accordingly, we consider that the consolidated entity will operate within the Australian Aircraft Manufacturing Industry (AAM).

The AAM is defined to include those enterprises engaged in manufacturing or repairing aircraft, aircraft engines and frames and / or the provision of specialist repair services for both civilian and military clients.

The industry is best segmented by its end users, which are as follows:

- **The Major Airlines:** The major airlines in Australia, namely Qantas and Virgin Blue, account for approximately 67% of domestic demand of the AAM industry. In recent times the participants in this segment have increased their purchases of aircraft, although it has been through imports as opposed to domestically produced products.
- **The Federal Government:** The largest customer from the Federal Government is the Department of Defence, which accounts for approximately 23% of AAM industry demand. The dominance of the segment in any year is dependant upon the expected level of government expenditure.
- **General Aviation:** This segment is concerned with the manufacture of light aircraft together with the repair and service of small, private and commuter type aircraft. The segment is characterised by a number of small participants who often specialise in the provision of a particular type of service aircraft and accounts for approximately 10% of the Australian market.

The services performed and provided by participants in this industry are largely the same across the industry segments however they do change in their degree of sophistication and scale with the size of the operations and type of aircraft employed by the end-user. "High-end" activities are those which service the complex machinery of speciality or large scale operators who usually also hold a large number of aircraft assets. Typically, high-end customers are those with the Major Airline or Federal Government segments. It is estimated that providers of services to the "high-end" of the market represent approximately 68% of the total AAM industry.

3.1 Market Size and Competitive Environment

The level of participant concentration in the AAM industry is considered to be medium. While the four largest participants of the industry accounted for approximately 47.6% of the industry's revenues during 2005, they also subcontracted a number of their services to the multitude of smaller industry participants.

In 2002 the Australian Bureau of Statistics (ABS) estimated that there were only five industry participants that had turnover of over \$20 million however, there were also in excess of 750 participants that had turnover of less than \$500,000. The industry is considered to be truly global with most participants having direct competitors which are foreign or they themselves are certified to operate within international markets.

The primary basis of competition for industry participants is the ability to meet customer product specifications on time and within budget. This is a result of the highly specialised and costly nature of the assets.

The size of the market is somewhat controlled by the level of barriers to entry and industry regulation.

- **Barriers to Entry:** It is considered to be moderately difficult to enter the market and highly dependant upon the participant's target customer. For participants looking to service the General Aviation market, the level of industry barriers is considered to be low due to the comparative simplicity of the services they provide. The bulk of the workforce tends also to be blue collar in nature and as such may be more readily available than specialist, tertiary qualified labour. Accordingly, entry to this end of the market is generally not as onerous and it is estimated that it requires an initial investment of between \$1 million and \$1.5 million.
- **Regulation:** The industry is considered to be heavily regulated. Participants that are involved in the maintenance segment of civil aircraft must be accredited on standards set by Air Services Australia and the Civil Aviation Safety Authority (CASA). In addition to this, operators who service foreign aircraft must abide by the specific regulations set by the respective countries' authorities.

3.2 Revenue

For the 2005 financial year, it was estimated that total AAM revenue was \$2,223.3 million, which represented 9.4% growth on the previous year's performance. This growth was primarily driven by increased imports as a result of Australia's major airlines purchasing of aircraft from either the Boeing Company or Airbus Industries, as opposed to strong domestic growth.

The purchase of the industry's products and services is often considered to be a long term capital investment, made after considering the likely future demand for air transport and the maintenance plan associated with the end user's existing fleet. Accordingly, decisions to purchase aircraft or service agreements tend to be delayed rather than cancelled in times of downturn and the supply and delivery cycle of some components can take some weeks and months as opposed to days.

In recent times the industry participants have been forced to take a greater level of risk associated with their manufacture of components, and as a result many are looking to enter in to development agreements with their clients as a means of controlling the cost, manufacture and delivery processes, as opposed to being engaged under simple contracts for supply. This trend is also leaving the manufacturer with the ability to develop significant intellectual property assets.

Historically, revenues have been volatile as detailed below:

Table 1: Industry Revenue and Growth

Financial Year	Total Industry Revenue (\$ Million)	Growth (%)
2001	1,996.6	(4.7)
2002	2,727.8	36.6
2003	2,821.9	3.4
2004	2,031.5	(28.0)
2005	2,223.3	9.4

Source: IBISworld Industry Report – Aircraft Manufacturing in Australia 11 April 2006

The volatility of the revenues is attributed to the following factors:

- **The lumpy nature of aircraft sales:** The decision to purchase aircraft is a long term investment for operators and dependant upon a number of internal factors of the end user and the external operating environment. As such decisions to purchase can take long period to assess.

- **The length of the product lifecycle:** Aircraft assets are generally held for the long term – 10 to 20 years. As such, when participants have similarly aged fleet the maintenance and upgrade timetables can create lumps in the industry's revenues.
- **Stock availability:** Given the size of capital investments involved in airline operation businesses, aircraft are often purchased directly from airlines ceasing operations or through liquidation proceeds. This can increase the amount of stock available and bring forward the purchase decisions of some end users.
- **Global economic environment:** During the 2003 financial year, the combination of the US Terror attacks, invasion of Iraq and outbreak of Severe Acute Respiratory Syndrome (SARS) led to reduced demand for international aviation services. These factors impacted the performance of the sector for a number of months as a result of some airline participants leaving the market or attempting to trade out of difficult financial predicaments.
- **Demand for air travel services:** This is driven predominately by demand from the business and leisure sectors through the demand of more seats and capacity for business and freight travel; and training planes for university courses.
- **The introduction of new technology:** As new technology is introduced into the industry it is expected that industry operations may become more viable due to improvements that are made in production processes and systems.

3.3 Cost Drivers

The predominant expense associated with the industry in 2004¹ was purchases of raw materials which represented approximately 47.8% of industry turnover. Purchases generally constitute a significant portion of industry expenses as the materials used must be extremely high in strength, low in weight and meet stringent safety requirements.

Wages and salaries accounted for a further 29.7% of industry turnover.

3.4 Outlook

The AAM industry is currently considered by to be in the Growth stage of the Industry Lifecycle. As the second stage in the lifecycle, the period often sees participants enjoying the benefits of consolidation of their activities. Sales and earnings of participants in growth industries are expanding at a faster rate than those of participants in other industries, enabling them to achieve an above average rate of earnings on invested capital for an extended period of time as a result of the expectation that revenues and profitability will continue to improve. Price competition may also become evident at this stage of the industry lifecycle as a result of participants being able to draw on their historically good margins.

This growth stage is highlighted by the following activity within the industry:

- New entrants into the industry are expected to utilise the Australian location and intellectual property advantages; and
- An emerging number of new products are entering the market, particularly within the defence sector.

¹ Latest information available.

During the five year period to the 2010 financial year industry revenue growth is expected to continue to be volatile, as highlighted in the table below:

Table 2: Forecast Industry Revenue Growth

Financial Year	Industry Revenue (\$ Million)	Growth (%)
2006	2,332.2	4.9
2007	2,146.0	(8.0)
2008	2,353.5	9.7
2009	2,368.6	0.6
2010	2,450.9	3.5

Source: IBISworld Industry Report – Aircraft Manufacturing in Australia 11 April 2006

Over the five year period to the 2010 financial year we note the following:

- Analysts have forecast a softening of the world civil aircraft manufacturing industry over the next three years, although it is most likely to be felt by the major airline segment as opposed to the light aircraft market.
- Analysts believe that in the event that airlines form alliances to purchase aircraft, the purchasing power gained may place downward pressure on the industry's profitability.
- Growth in the demand for aviation related products is expected as a result of commercial airlines purchasing new equipment combined with further defence force spending.
- The Australian market may contract further from increased participation from global players such as Lockheed Martin.

3.5 Success Factors

In summary, the ability to succeed within the AAM industry is considered to be dependant upon the ability of participants to develop and maintain the following characteristics:

- **Operations flexibility:** Due to the highly volatile nature of industry growth, the ability to expand and curtail operations rapidly in line with demand forms a key competitive advantage.
- **Effective internal controls:** Participants must have well developed inventory and costs management systems in place in order to remain competitive within the industry.
- **The ability to negotiate and retain long-term contracts:** Due to the significant costs associated with the initial set-up of specific production lines, participants must retain long-term contracts with clients in order to regain initial cost outlays.
- **The ability to attract and maintain a qualified workforce:** Participants in the industry are highly dependant on skilled labour to derive revenue. Hence the ability to attract and retain employees with strong qualifications and developed practical skills is critical to the success of industry participants.
- **Access to the latest and most efficient technologies and techniques:** The ability to meet client timetables efficiently and effectively is a key factor of success of participants. Accordingly, participants need to use the most effective technologies to reduce the cost of delivering client services efficiently and effectively.

4. PROFILE OF IAP AUSTRALIA GROUP PTY LTD

4.1 General Overview and Company Description

IAP is an Australian private company that was established in 1983. At 30 June 2006, IAP's capital structure consisted of 100 ordinary shares all of which are owned by Mr R S Ferris. Mr R S Ferris is also the sole director and company secretary. IAP is the group holding company. The IAP Group consists of IAP and one wholly-owned subsidiary, Aeropelican Air Services Pty Ltd ("AAS").

The operations of each of the entities are as follows:

- IAP operates the International Air Parts business, which trades in aircraft spare parts, buys, sells and leases aircraft and has some engineering capability; and
- AAS operates Aeropelican commuter airline, which is a long established regional airline flying from Williamtown (Newcastle NSW) to Sydney.

4.2 IAP Business Operations and Management

International Air Parts

As detailed above IAP's business consists of three operational divisions:

Spare Parts Supply

The supply of spare parts is IAP's core business activity. Most spare parts are acquired as redundant spares from airlines that have changed their type of aircraft. These parts are then remarketed to other operators of the type of aircraft to which they relate. IAP considers its purchasing systems are well-honed over many years, and its network of contacts enables maximum exposure both for purchasing opportunities and selling.

IAP also has a strong parts brokering business, particularly with its Asian contacts. These parties will contract with IAP to obtain parts as required. IAP will then source those items at that time such that the company does not have the need to carry stock items.

IAP is approved by the Civil Aviation Authority of Australia for maintenance and parts distribution. It holds in excess of 450,000 line items of spares in its Sydney warehouses.

Acquisition and Sale of Aircraft and Aircraft Engines

IAP also buys and sells aircraft and aircraft engines. The activities of this operational division include:

- The trading of aircraft ranging in size from an Islander to a Boeing 737 and Airbus A300
- Aircraft Refurbishment carried out at the company's engineering operation at Bankstown airport
- The breakdown of aircraft to enable their parts to be sold on a piecemeal basis

Management advise that all aircraft are acquired at prices which are effectively underwritten by their parts value. Such that should an aircraft be unable to be sold in whole, the chance of IAP incurring a loss on the sale of its parts is either greatly reduced or removed.

Over recent years, IAP's engine business has moved towards specialising in the following Rolls Royce engines.

- Tay turbo fan: used in FK 100 and a number of corporate jets.
- Spey turbo fan: used in FK 28.
- Dart prop jet: used in HS 748 and F27.

Financing constraints have prevented IAP from renting or leasing these engines to users.

Aircraft Finance, Rental, and Hire

IAP currently finances the following aircraft:

- Six Hawker Siddley 748s. Five of the HS 748s have been converted to take 5,500kgs of cargo. Four of its HS 748s are currently operating off shore.
- Three Metro 23s. One of the Metro 23s is operated by Aeropelican and two others are leased to a Queensland operator; and
- One Embraer 110 PI Bandeirante which is also being operated by Aeropelican.

Competition

IAP has no significant competition from Australasian operators. US based operators including Volvo Aegis, AART, Kellstrom Industries, and Saywells are strong in the northern hemisphere but tend not to be active in parts acquisition in Asia, Africa, and South America.

Management

IAP employs approximately 35 persons. Most senior personnel have been long-term employees of the Company.

4.3 Aeropelican Business Operations and Management

AAS was acquired from the Administrator of Ansett in early 2002. It is a commuter airline based at Williamtown airport just north of Newcastle, NSW. The airline has operated for over 30 years and provides commuter services from Newcastle to Sydney's Kingsford Smith Airport.

The service currently operates with one Metro 23 and one EMB 110 Bandeirante, both of which are provided by IAP Australia Group Pty Ltd. Aeropelican is also a Qantas affiliate airline with all reservations done through Qantas. Ground handling is subcontracted. Aeropelican employs around 30 persons. The Aeropelican airline operation is not regarded as a core asset of the IAP group.

AAS also owns a property at Belmont near Newcastle, NSW. The Belmont property was the airport for Newcastle before it was moved to Williamtown airport. At the present time there is a significant amount of residential development being undertaken in the immediate vicinity. In order to pursue opportunities for the development of the land, in 2003 AAS entered into a joint venture with a local developer. Under the joint venture agreement the developer has advanced \$2 million to IAP and IAP has entered into a profit sharing arrangement under which IAP retains two thirds of the development profit.

4.4 Share Price History

IAP is not listed on any public or private exchange. There have been no recent transfers of shares in the company.

4.5 Income Statements

The Consolidated Income Statements for IAP for the financial years ended 30 June 2004 – 2006 are detailed below:

Table 3: Consolidated Income Statements – IAP Group Australia Pty Ltd

	Jun 2004 \$'000 Audited	Jun 2005 \$'000 Audited	Jun 2006 \$'000 Unaudited
Revenue			
Sales	15,231	19,652	20,266
Cost of Sales	(7,623)	(10,510)	(11,190)
Gross profit	<u>7,608</u>	<u>9,142</u>	<u>9,076</u>
Other income	-	196	182
Total Income	<u>7,608</u>	<u>9,338</u>	<u>9,258</u>
Expenses			
Interest	(896)	(964)	(626)
Depreciation	(1,149)	(1,034)	(409)
Employment	(3,794)	(4,272)	(3,309)
Other	(1,944)	(2,170)	(1,705)
Total expenses	<u>(7,783)</u>	<u>(8,440)</u>	<u>(6,049)</u>
Profit before tax	<u>(175)</u>	<u>898</u>	<u>3,209</u>
Gross Profit %	<u>49.95%</u>	<u>46.52%</u>	<u>44.78%</u>

In respect of these Income Statements we note the following:

- The income statements have been based on IAP's audited and unaudited financial reports adjusted in the following manner:
 - To reflect revenue from the sale of aircraft by way of finance leases in accordance with Australian Accounting Standards
 - Depreciation expense has been adjusted to be consistent with PTB's depreciation policy and rates
- The results for the years ended 30 June 2003 and 2004 have been adversely effected by IAP's exposure to the insolvency of Horizon Airlines. IAP sold Horizon in 2003. The business subsequently went into administration causing significant write offs in IAP and other one off costs involved in preparing the ex Horizon aircraft for sale/lease. In addition, IAP's aircraft lease income was also reduced.
- The sale of the Aeropelican aircraft, which was completed in the 2004 year, resulted in an abnormal profit of \$1.9 million.
- During the 2005 year, Aeropelican operations were transferred to Williamstown due to the closure of the airport at Belmont. At the same time, two new aircraft types were introduced to the business. The cost of these changes is estimated to be a one off cost in the 2005 year of \$350,000.
- The results for the 2006 year are regarded as being a better indication of normal operating conditions.

- The contributions to Profit before tax by IAP and AAS are as follows:

	Jun 2004 \$'000	Jun 2005 \$'000	Jun 2006 \$'000
IAP Australia Group Pty Ltd	213	(641)	3,123
Aeropelican Air Services Pty Ltd	(388)	1,539	86
Profit before tax	(175)	898	3,209

In the case of the profit before tax amounts we note the following:

- The IAP result reflects the additional expenses with respect to Horizon discussed above.
- The AAS result has been impacted by the costs of the move to Williamstown but has benefited from the \$1.9 million profit on the sale of the ex Horizon aircraft. In addition, there is no charge between IAP and AAS for the aircraft leased by AAS. PTB management believe that the estimated lease rental that IAP could charge on a commercial basis to AAS would be around \$465,000.

4.6 Balance Sheets

Consolidated Balance Sheets for IAP as at 30 June 2005 and 30 June 2006 are detailed below:

Table 4: Consolidated Balance Sheets – IAP Group Australia Pty Ltd

	Jun 2006 \$'000	Jun 2005 \$'000
Current Assets		
Cash	16	14
Receivables	3,567	937
Inventories	2,522	2,350
Total Current Assets	6,105	3,301
Non-Current Assets		
Receivables	917	1,491
Property Plant & Equipment	15,088	12,201
Total Non-Current Assets	16,005	13,692
Total Assets	22,110	16,993
Current Liabilities		
Payables	4,894	3,633
Current tax liability	-	1,317
Interest bearing liabilities	7,472	9,698
Provision for dividend	414	-
Employee entitlements	512	494
Total Current Liabilities	13,292	15,142
Non-Current Liabilities		
Deferred tax liability	1,142	-
Total Non-Current Liabilities	1,142	-
Total Liabilities	14,434	15,142
Net Assets	7,676	1,851
Equity		
Issued capital	-	-
Asset revaluation reserve	3,807	965
Retained earnings	3,869	886
Total Equity	7,676	1,851

With respect to the Company's Balance Sheet we note the following:

- Property, Plant and Equipment include the Belmont land (the Land) at a carrying value of \$3.054 million, which reflects the directors' valuation. The Land is currently non-income producing and is being held for its development potential only. Accordingly, it is regarded as a "surplus" asset for the purposes of our valuation of IAP. Management has advised that they recently received unsolicited informal offer to purchase the Land for \$4 million.
- Current Interest Bearing Liabilities includes the Developer Loan of \$2 million.
- IAP holds a significant parts inventory at nil value. This inventory represents the residual parts remaining from aircraft purchased and broken down and where the costs have been allocated to the parts that have been sold within a reasonably short period after acquisition. The remaining parts represent items that are slower moving and/or possibly need reconditioning to be in a saleable condition. As a result, both IAP and PTB management believe that the nil value basis is appropriate for the valuation of this inventory. Management believe that the sales of this nil value inventory will have a consistent impact on gross profit and consequently will be reflected in the valuation of the enterprise. As a result we have not attempted to obtain a "fair value" for this inventory.
- In accordance with the PTB/IAP purchase agreement, the vendor shareholder is to receive a final dividend of \$414,483 prior to settlement. A provision for dividend has been taken for this amount.
- The properties at Warriewood and Belmont and a number of aircraft have been revalued. In accordance with Australian Accounting Standards the potential capital gains tax liability has been estimated and taken up as a Deferred Tax Liability.

5. PROFILE OF PACIFIC TURBINE BRISBANE LIMITED

5.1 General Overview and Company Description

As discussed above, PTB is an Australian company listed on the Newcastle Stock Exchange (NSX) which was incorporated on 9 October 2001 to acquire the Brisbane assets of Pacific Turbine Pty Ltd.

The Company's operations currently comprise the following:

- The provision of specialist aircraft turbine engine repair and overhaul services through the Company's facility based at Brisbane Airport, Brisbane, Queensland, Australia (The PTB Repair Business);
- The acquisition, reconditioning and re-sale of aircraft turbine engines and related parts (The PTB Engine Business); and
- The provision of finance facilities to customers (The PTB Finance Business). The Finance Business includes options for the outright purchase, hire purchase, lease or rental of aircraft engines.

PTB listed on the NSX in March 2005, after completing a \$4 million capital raising by way of an information memorandum and a prospectus. Between November 2005 and March 2006, PTB raised a further \$4.5 million through the issue of unsecured notes.

5.2 Contributed Equity

As at the date of this report, PTB had 11,738,632 ordinary shares on issue. As part of the Proposed Transaction a further 6,908,054 ordinary shares in PTB will be issued to the sole shareholder of IAP.

In addition to the consideration for the acquisition of IAP, PTB proposes to undertake two further capital raisings as follows:

- a) In August 2006 the company proposes to raise a further \$4.5 million by way of an issue of shares. As a result an estimated 2,941,000 ordinary shares at \$1.53 each will be issued. Of the funds raised, \$2.5 million will be used to pay the cash component of the purchase price of IAP. The balance of the funds will be used as additional working capital.
- b) In November 2006 PTB plans to issue a prospectus to raise a further \$8 million for additional working capital. It is estimated that approximately 4,706,000 shares will be issued at an assumed issue price of \$1.70 each. (The actual issue price is yet to be determined.)

The issued capital and the approximate breakdown of shareholding groups following the proposed share issues will be as follows:

	Current		Proposed	
	No '000	%	No '000	%
Founders of PTB	7,400	63.25%	7,400	27.47%
Vendor of IAP	-	0.00%	6,908	25.64%
Current public investors in PTB	4,300	36.75%	4,300	15.96%
Investors from August & November issues	-	0.00%	8,333	30.93%
	11,700	100.00%	26,941	100.00%

The table above shows that the effect of the Proposed Transaction and the August and November share issues significantly dilutes the voting power of the existing shareholder groups.

5.3 PTB Strategy

Industry data shows that revenues in PTB's market sector are volatile (refer section 3.4). As a result, and in order to reduce the impact of this volatility, a key part of PTB's business model is to build recurring earnings through its engine financing activities. Currently these activities are producing returns of 20% to 30% per annum, including trading engines in the rental pool.

Historically, the reluctance of financiers to participate in the AAM industry has constrained PTB in building its rental pool to the desired size both in Australia and off-shore. As a result, one of PTB's strategies has been to seek to expand the size of the pool by acquisition as well as organic growth. The company believes that the larger receivables ledger that will result from building the engine rental pool will also enhance financing options.

The PTB Board has identified the business of IAP Australia Group Pty Ltd (IAP), as a business it considers suitable for acquisition by the Company. The acquisition is consistent with PTB's strategy because it provides:

- A highly complementary asset management business that has the potential to provide strong returns similar to that of PTB
- Will enable an increased rental pool through expansion into new aircraft types both with respect to engines and airframes
- A larger and more diverse business with a highly experienced management team

5.4 Income Statement

The Income Statements of PTB for the years ended 30 June 2004 to 2006, are detailed below:

Table 5: Income Statements – Pacific Turbine Brisbane Limited

	Jun 2004	Jun 2005	Jun 2006
	\$'000	\$'000	\$'000
	Audited	Audited	Unaudited
Revenue	10,615	9,458	17,657
Cost of sales	(7,381)	(6,001)	(12,383)
Gross Profit	3,234	3,457	5,274
Other income	100	1,606	626
Total income	3,334	5,063	5,900
Expenses			
Interest	(132)	(131)	(427)
Depreciation	(65)	(232)	(582)
Employee benefits	(1,038)	(1,066)	(1,138)
Other	(586)	(1,480)	(943)
Total expenses	(1,821)	(2,909)	(3,090)
Profit before tax	1,513	2,154	2,810
Gross profit %	30.47%	36.55%	29.87%

In respect of the Statement of Financial Performance we note the following:

- Since the commencement of its operations, PTB has achieved sound pre-tax profits of \$1.5 million per annum or better. This high level of profitability has largely been a result of operating in a specialist niche area of its industry where the Company has been able to obtain strong margins.

5.5 Balance Sheet

The balance sheets for PTB for the year ended 30 June 2005 and 31 December 2005 are detailed below.

	Dec 05 \$'000 Audited	Jun 2005 \$'000 Audited
Current Assets		
Cash	597	1,346
Receivables	4,695	3,301
Inventories	3,850	2,000
Other	139	90
Total Current Assets	9,281	6,737
Non-Current Assets		
Receivables	1,036	658
Property Plant & Equipment	4,437	4,005
Deferred tax assets	6	-
Intangibles	14	17
Total Non-Current Assets	5,493	4,680
Total Assets	14,774	11,417
Current Liabilities		
Payables	1,496	826
Interest bearing liabilities	1,107	1,003
Current tax liability	321	244
Provisions	141	137
Other	297	88
Total Current Liabilities	3,362	2,298
Non-Current Liabilities		
Interest bearing liabilities	2,430	523
Deferred tax liabilities	-	44
Provisions	73	70
Total Non-Current Liabilities	2,503	637
Total Liabilities	5,865	2,935
Net Assets	8,909	8,482
Equity		
Contributed equity	4,045	3,948
Reserves	84	76
Retained profits	4,780	4,458
Total Equity	8,909	8,482

5.6 PTB Share Price History

PTB listed on the NSX in March 2005. Over the last year i.e. from August 2005, the shares have traded from a low of \$1.10 to a high of \$1.65. At the present time the shares are trading around \$1.50 each. The following graph and tables show the share price history of the company for the last 12 months and the earnings per share and PE ratios.

Table 6: Share Price History – Pacific Turbine Limited

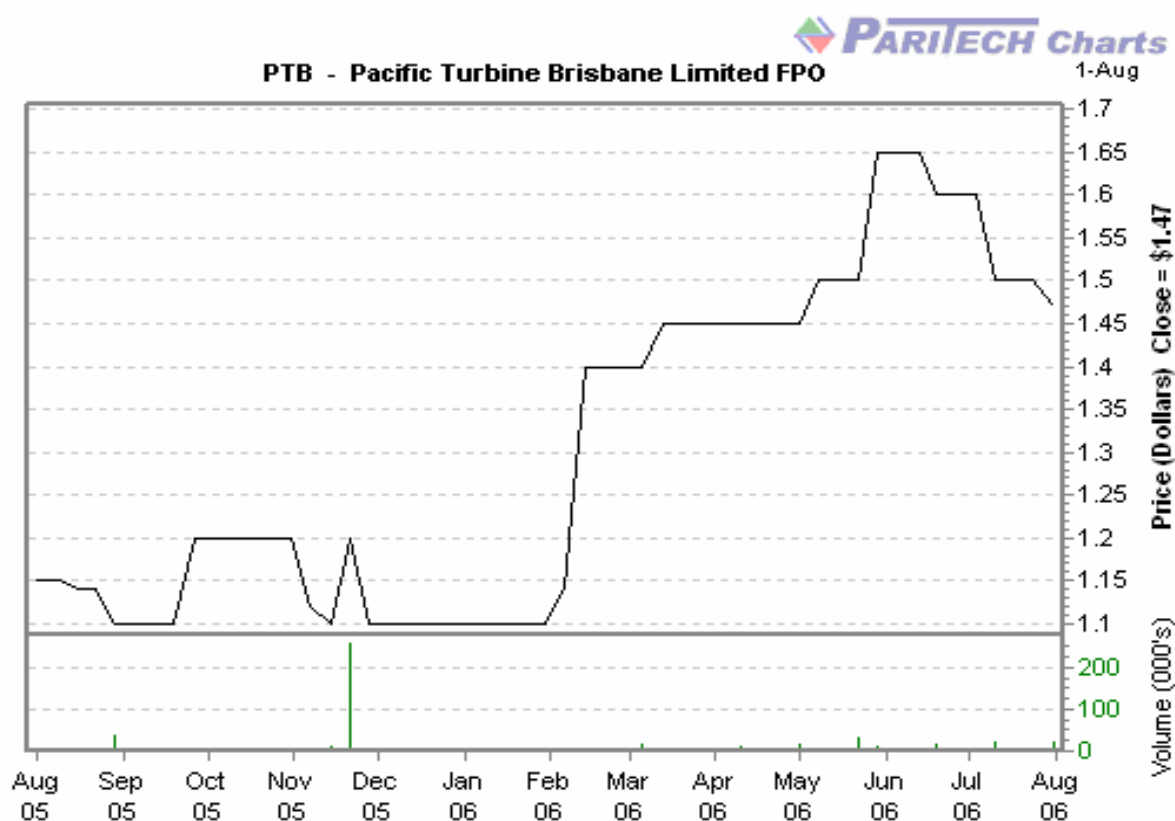


Table 7: Earnings Per Share – Pacific Turbine Limited

	PTB FY 2006	PTB FY 2005	PTB FY 2004
Earnings per share (cents)	16.76	13.00	13.20

Table 8: Price Earnings Ratio – Pacific Turbine Limited

	PTB FY 2006	PTB FY 2005	PTB FY 2004
Price earnings ratio (current price \$1.50)	8.95	12.30	12.10

6. VALUATION APPROACH

Set out in Appendix 3 is a summary of the various methodologies considered by WBSL in the course of arriving at its valuation conclusions. These valuation methodologies are consistent with ASIC Practice Note 43 which sets out the appropriate valuation methodologies that a valuer should consider when valuing securities in circumstances similar to the Proposed Transaction.

Value is normally assessed to be the economic benefits that are expected to be derived from ownership of an asset. There are a number of commonly accepted valuation methodologies that are used to determine value, namely:

- Discounted cash flow
- Capitalisation of future maintainable earnings
- Net realisable asset on a going concern basis
- The amount an alternative acquirer might be prepared to offer
- The amount shareholders would be likely to receive in the orderly realisation of assets
- In the case of a listed entity, the most recent price of the quoted securities

In the course of preparing this report, we examined each of these methods and tested each of the methods, or a combination of the methods, to determine a reasonable basis of valuation of both PTB and IAP.

6.1 Future Maintainable Earnings Basis

For the purpose of the valuation of the shares of both PTB and IAP, we have used the capitalisation of future maintainable earnings approach. This method involves the multiplication of an estimated future maintainable earnings figure by an appropriate price earnings multiple. Maintainable earnings are the assessed sustainable profits that can be derived by the business excluding any once off profits. In addition, the absence of long term forecasts from both PTB and IAP management also make this the appropriate valuation methodology to adopt.

This method is suitable for the valuation of a controlling interest in a company that is expected to trade profitably into the foreseeable future. The value of any surplus assets (assets that are not used in the main operating activities) should be added to the value obtained using the capitalisation of future maintainable earnings basis to estimate the total value of the company being valued.

7. VALUATION OF IAP GROUP AUSTRALIA PTY LTD

7.1 Future Maintainable Earnings Basis

Because of the absence of longer term forecasts, we have valued IAP using the capitalisation of future maintainable earnings method. In preparing the valuation we have had regard to the following:

- a) The historical and forecast earnings
- b) The stability and quality of earnings
- c) The future prospects for the business
- d) The general level of interest rates and industry multiples
- e) The level of net tangible assets

We have presented our consideration of each of these factors below.

7.2 Future Maintainable Earnings

We have based the future maintainable earnings of IAP on estimates provided by PTB management. This estimate is based on the unaudited results for the 2006 financial year adjusted to reflect lower aircraft and parts sales because of working capital restraints. Estimated future maintainable earnings are calculated as follows:

Table 9: Future Maintainable Earnings – IAP Australia Group

	Low Value \$'000	High Value \$'000	Mid Point \$'000
Profit before tax	1,980	2,420	2,200
Tax expense (30% of net profit before tax)	(594)	(726)	(660)
Profit after tax	1,386	1,694	1,540

The key assumptions are as follows:

- IAP will maintain its worldwide customer base and network of agents, contacts and partners
- There will be no change experienced in the level of global competition but specifically in south-east Asia
- IAP will maintain its historic gross margins
- The company will retain its key management and operational personnel
- No material impact from movements in exchange rates, particularly \$US
- Interest rate increases will not have a material impact on net profit

7.3 Capitalisation Multiple

We have set out below the PE multiples of similar businesses to IAP worldwide.

Table 10: Industry Price Earnings Ratios

COMPANY NAME	DESCRIPTION	COUNTRY	DATA PERIOD	P/E RATIO
VECTOR AEROSPACE	Vector Aerospace Corporation performs repair and overhaul services on various types of turbine engines. The Company performs its services on turboprop and turbofan engines for airplanes, turboshaft engines for helicopters, and non-aviation turbine engines.	CANADA	12/2005	13.76
WILLIS LEASE	Willis Lease Finance Corporation leases aftermarket commercial aircraft engines and other aircraft-related equipment. The Company provides this service to passenger airlines and air cargo carriers. Willis provides spare aircraft engines, which help aircraft operators meet scheduled or incidental repairs, as well as FAA maintenance directives.	UNITED STATES	12/2005	15.09
TRANSMILE GROUP	Transmile Group Berhad provides air transportation services. The Company, through its subsidiaries, deals in aircraft parts and equipments and provides aircraft engineering and line maintenance services, and aircraft ground handling services. Transmile Group also leases aircrafts.	MALAYSIA	12/2005	27.53
TPA STRATEGIC	TPA Strategic Holdings Limited supplies aircraft parts such as Rotables and Expendables and provides aircraft components repair services in the aviation industry. The Company also supplies shelter ventilating components and its related engineering and testing services for civil defence applications in Singapore.	SINGAPORE	¹ 2/2005	16.43
SATAIR	Satair A/S sells and distributes aircraft spare parts. The Company has entered into distribution agreements with a wide range of manufacturers of spare parts. Satair services global and regional airlines, independent repair shops, and military organizations. The Company owns subsidiaries in the United States, Singapore, France, and Switzerland, and sales offices in China and Malaysia.	DENMARK	06/2005	16.63
AIR CHINA LTD-H	Air China Limited provides passenger, cargo, and airline-related services in China. The Company is primarily based in Beijing and a major hub for domestic and international air transportation. Air China's airline-related services include aircraft maintenance, repair, overhaul service, ground services, and in-flight catering services.	CHINA	12/2005	10.10
AAR CORP	AAR CORP. supplies aftermarket products and services to the global aviation/ aerospace industry. The Company purchases, sells, and leases new and used commercial jet aircraft, as well as purchases, sells, and leases a variety of new, overhauled, and repaired engines and engine products for the aviation aftermarket. AAR overhauls, repairs, and exchanges a variety of engine parts.	UNITED STATES	05/2006	24.82

The range of capitalisation multiples is as follows:

Average	High	Low
17.77	27.53	10.10

The average shown above is impacted by a number of companies whose multiples are significantly outside the median; consequently we have chosen an adjusted average of 15.5 which excludes the outlying PE ratios. We have then adjusted this capitalisation multiple to allow for the following:

- Lack of negotiability
- Relative size of business
- Control premium
- Individual company risk including
 - the volatility in earnings history
 - the impact of the constraints on working capital in recent years

Non-negotiability

IAP is a proprietary company with a limited secondary market for its shares. In addition, because of its status, there are other restrictions on negotiability contained in the company's constitution.

A discount for the limitations on negotiability has been applied, as shares in unlisted companies are valued at a significant discount to shares in comparable listed companies. In practice negotiability risk premiums range from 35% to 50% based on US studies. We have used the mid-rate of 42.5% for the purposes of our calculation.

Relative Size

All of the companies included in the table of comparative price earnings multiples shown previously in this section are substantially larger than IAP. In these circumstances, it is reasonable to expect that the multiple applied to smaller sized companies will be at a discount to the other much larger participants in the industry. As a result we have applied a discount of 35% i.e. a discount multiple of 3.5 in determining the capitalisation multiple to be applied to IAP.

Control Premium

Because the Proposed Transaction relates to an acquisition of 100% of the issued capital in the company an adjustment for control is necessary. Australian studies of public company take over premiums broadly indicate bid premiums of approximately 33% (depending on the economic cycle). The Australian research of public company take over premiums indicates that control premiums paid in public company takeovers range from 15% to 30 %. Because of the substantial profits and surplus generated if the directors' revenue and expenditure estimates are achieved, we have assumed that a potential buyer would be prepared to pay the maximum control premium i.e. 30%.

Company Risk

IAP has a record of consistent profitability since 2000 with the exception of the 2004 and 2005 years which were adversely effected by write-offs and write-downs arising from the administration of Horizon Airlines and Aeropelican's move to Williamstown from Belmont.

In addition, IAP management have indicated that the results have been effected by the company's access to working capital. In the current circumstances, we believe that a potential investor would apply a discount to compensate for the risk that revenue estimates may not be achieved. We have applied a risk premium of 15% in the calculation of the capitalisation multiple.

The capitalisation multiple determined calculates as follows:

Table 11: Estimated Capitalisation Multiple

	P/E
Average prime earnings as shown above	15.50
Lack of negotiability	(4.25)
Relative size	(3.50)
Controlling Interest (premium)	3.00
Company risk	(2.50)
Total	8.25

7.4 Surplus Assets

Surplus Assets are those assets which form part of an entity, but which are not used in the primary undertaking or business of the entity. Such assets are surplus to the primary undertaking or business and should be considered separately from the business assets when considering the value of an entity. The surplus assets identified are as follows:

- Belmont land is now regarded as surplus to the company's normal operating activities. For the purposes of our calculation, we have used a value of \$4 million which is based on the unsolicited offer received. We have also deducted the amount of the "developer loan" of \$2 million as this is regarded as indirect funding for the land purchase i.e. without the land there would be no developer loan and if the land were sold, the loan would be repaid.
- IAP has currently approximately \$8 million of franking credits available. We have not recognised any value with respect to these franking credits as there has been no assessment as to the possible use and benefit that might be obtained, if at all.

We are not aware of any other assets and liabilities to which the company can lay claim, or is liable for, which are not included on the above Balance Sheet.

7.5 Valuation Conclusion

We have been engaged to comment on the fairness and reasonableness of the Proposed Transaction to the shareholders of PTB. As part of this assessment we have determined an enterprise value for IAP on a capitalisation of future maintainable earnings basis.

The valuation of IAP using the capitalisation of future maintainable earnings is based on the following formula:

$$\text{Enterprise value} = (\text{Future maintainable earnings} \times \text{capitalisation multiple}) + \text{surplus assets}$$

The value of IAP using this method is summarised as follows:

Table 12: Valuation of IAP

	Low Value \$'000	High Value \$'000	Mid Point \$'000
Future Maintainable Earnings \$	1,386	1,694	1,540
Capitalisation multiple	8.25	8.25	8.25
Business value	11,435	13,976	12,705
Surplus assets	2,000	2,000	2,000
Enterprise Value	13,435	15,976	14,705

8. VALUATION OF PACIFIC TURBINE BRISBANE LIMITED

Part of the purchase consideration being offered under the Proposed Transaction is ordinary shares in PTB. In order to assess the value of the consideration being offered, we have obtained the current market value at which PTB is trading on the NSX and determined a value for PTB based on a notional consolidation of PTB and IAP assuming the Proposed Transaction is completed.

The current market value of PTB is discussed at Section 5.6. We have adopted the current market price of \$1.50 as the appropriate market value for the purposes of our assessment.

We have used the capitalisation of future maintainable earnings basis to determine the value of the consolidated group. In preparing the valuation we have had regard to the following:

- a) The historical and forecast earnings
- b) The stability and quality of earnings
- c) The future prospects for the business
- d) The general level of interest rates and industry multiples
- e) The level of net tangible assets

8.1 Future Maintainable Earnings

The future maintainable earnings of PTB and IAP combined have been calculated as follows:

Table 13: Future Maintainable Earnings – PTB and IAP Combined

	Low Value \$'000	High Value \$'000	Mid Point \$'000
PTB forecast profit after tax	2,160	2,640	2,400
IAP forecast profit after tax	1,386	1,694	1,540
Forecast earnings after tax from proposed share issues	1,715	2,095	1,905
	5,261	6,429	5,845

We make the following notes with respect to the combined future maintainable earnings of PTB and IAP combined:

- The PTB forecast profit after tax is based on the unaudited management results for the year ended 30 June 2006
- The IAP forecast profit is based on the expected future maintainable earnings determined for IAP valuation in section 7
- \$2.5 million of the proposed August 2006 share issue will fund the cash component of the purchase price of IAP which leaves the balance of \$2 million to fund additional working capital to be utilised in the combined business. The forecast earnings are based on 20% margin less tax at 30% annualised.
- The November share issue is expected to raise \$8 million. These funds will be used as additional working capital with forecast earnings at a 20 % margin and tax at 30% on an annualised basis.
- It is also proposed that additional borrowings of \$8 million will be arranged in November 2006. The anticipated interest on this borrowing is 11% per annum. These funds will be utilised as additional working capital with forecast earnings based on 20% margin less interest and tax at 30%.

The key assumptions are as follows:

- PTB and IAP will maintain their worldwide customer base and network of agents, contacts and partners

- There will be no change experienced in the level of global competition but specifically in south-east Asia
- PTB and IAP will maintain/achieve their historic/estimated sales volumes and margins
- The additional working capital will achieve the forecast earnings of 20% per annum
- The company will retain its key management and operational personnel
- No material impact from movements in exchange rates, particularly \$US
- Interest rate increases will not have a material impact on net profit
- The proposed PTB capital raisings will be successful
- The proposed additional borrowings will be available at the forecast interest rate
- There will be no additional on-going fixed costs in the group as a result of the acquisition.

8.2 Capitalisation Multiple

PTB is listed on the NSX. The historic and forecast price earnings ratios are as follows:

Table 14: PTB Price Earnings Ratios

	PTB FY 2006	PTB FY 2005	PTB FY 2004
Price earnings ratio (current price \$1.50)	8.95	12.30	12.10

The PE ratios for 2004 and 2005 are based on actual figures. The ratio for 2006 is based on the unaudited results and a share price of \$1.50 per share.

For the purposes of our valuation of the notionally consolidated PTB and IAP, we have used a capitalisation multiple of 10. In addition, we have assumed that PTB will continue to trade around the lower end of its historic PE ratio.

8.3 Surplus Assets and Liabilities

We are unaware of any surplus assets in PTB. The surplus assets identified for IAP in Section 7.4 will also be applicable for the valuation of the notionally consolidated PTB and IAP.

8.4 PTB Issued Shares

The numbers of issued shares used to determine a share value for the notionally consolidated PTB and IAP has been calculated as follows:

Table 15: Calculation of PTB Shareholding

	No Shares '000
Shares on issue at 1 August 2006	11,738
Shares to be issued as consideration for the acquisition of IAP	6,908
Estimated shares issued August 2006 (\$4.5 million @ 1.53 per share)	2,941
Estimated shares issued November 2006 (\$8.0 million @ an assumed price of \$1.70 per share. Refer note below.)	4,706
Total forecast number of shares	<u>26,293</u>

Note: The actual issue price has yet to be determined.

8.5 Valuation Conclusion – Consolidated PTB and IAP

In our opinion, the potential value per share of the notionally consolidated PTB and IAP on a future maintainable earnings basis is as follows:

Table 16: Share Value – Consolidated PTB and IAP

	Low Value \$'000	High Value \$'000	Mid Point \$'000
Future Maintainable Earnings \$	5,261	6,429	5,845
Capitalisation multiple	10.00	10.00	10.00
Enterprise value	52,610	64,290	58,450
Surplus assets	2,000	2,000	2,000
Equity Value	54,610	66,290	60,450
Estimated number of shares on issue post acquisition and capital raisings	26,293	26,293	26,293
	\$	\$	\$
Estimated value per share in notionally consolidated PTB and IAP	2.08	2.52	2.30

9. ASSESSMENT OF THE PROPOSED TRANSACTION

We have been engaged to comment on the fairness and reasonableness of the Proposed Transaction to the shareholders of PTB. In order to assess whether the Proposed Transaction is fair and reasonable, we have considered:

- The market value of the shares in IAP on a controlling interest basis
- The stated purchase price of the Proposed Transaction
- The current market value of PTB shares
- The likely fair market value of the shares in PTB offered as consideration based on a notional consolidation of PTB and IAP

The results of our valuations in each of these situations summarises as follows:

Table 17: Value Comparisons

	Low Value \$'000	High Value \$'000	Mid Point \$'000
Market value of IAP	13,435	15,976	14,705
Purchase price offered	12,862	12,862	12,862
Current market value of PTB	\$1.50	\$1.50	\$1.50
Value of PTB/IAP consolidated	\$2.08	\$2.52	\$2.30

9.1 Is the Proposed Transaction Fair?

As discussed in Section 2, our assessment of whether the Proposed Transaction is fair has been made with reference to the definition of "fair" outlined in PS75.

Based on the valuations shown above, as the assessed value range per PTB share, upon acceptance and execution of the Proposed Transaction, is equal to, or greater than, the assessed value range per PTB share currently held, we have concluded that the Proposed Transaction is "fair".

9.2 Is the Proposed Transaction Reasonable?

ASIC Policy Statement 75 considers an offer to be reasonable if:

- the offer is fair; or
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher alternative offer.

Given our conclusion that the Proposed Transaction is fair, the Proposed Transaction is "reasonable".

9.3 The Advantages and Disadvantages of Accepting the Proposed Transaction

We have considered the following advantages and disadvantages of accepting the Proposed Transaction:

Advantages

- IAP is a highly complementary asset management company.
- IAP has a history of strong return capabilities similar to PTB.
- IAP will enable diversification into new aircraft and engine types.
- IAP provides a successful and highly skilled management team with proven contacts and networks
- Potential to realise the value of the surplus assets.

Disadvantages

- Potential higher risks associated with the business, particularly with the operation of Aeropelican.
- Dilution of existing PTB shareholder voting power

9.4 The Advantages and Disadvantages of Not Accepting the Proposed Transaction

We have considered the following advantages and disadvantages of not accepting the Proposed Transaction:

Advantages

- Current PTB shareholders retain their existing holding status will preserve their current collective voting power.
- Shareholders retain their existing risk profile. By rejecting the Proposed Transaction the nature of the operations of the PTB business will not change, hence the business risk profile of the investment for the current PTB shareholders will not change. Shareholders will continue to hold the investment of their original choosing. This stability of risk profile is not to be confused with any suggestion that a secure investment generating a positive earnings stream will be retained.

Disadvantages

- **Lost opportunity:** By not undertaking the Proposed Transaction, the existing PTB shareholders will be forgoing the only current opportunity to change the nature of the PTB business. We understand that at present, the Directors have no alternative suitable business opportunity to offer the PTB shareholders. Therefore PTB shareholders will forgo all of the advantages of the Proposed Transaction outlined in Section 9.3.

10. IS THE PROPOSED TRANSACTION “FAIR AND REASONABLE”?

After consideration of the factors outlined above, the Proposed Transaction as a whole, and in the absence of an alternative proposal, we consider the Proposed Transaction to be “fair and reasonable”.

11. STATEMENT OF QUALIFICATIONS, DECLARATIONS AND CONSENTS

William Buck Securities Ltd (WBSL) holds Australian Financial Services Licence No.247427, pursuant to Section 913B of the Corporations Act 2001, and its representatives are qualified to provide this report. This licence authorises WBSL to carry on a financial services business to provide financial product advice for various classes of financial products including interests in managed investment schemes and securities. WBSL and its representatives have not provided advice to PTB.

Prior to accepting this engagement, WBSL considered its independence with respect to PTB with reference to ASIC Practice Note 42 entitled “Independence of experts’ reports”.

To prepare this report we have relied on information primarily provided by PTB that we believe to be reliable and accurate. We have no reason to believe that any material facts have been withheld from us, but we have not taken any steps to verify the accuracy, completeness or fairness of any data provided. PTB has agreed to indemnify WBSL, its directors and employees from any action arising as a result of misstatement or omission of information or materials supplied by PTB, its subsidiaries, directors or employees on which WBSL has relied. The extent of the indemnity from PTB extends only to information or materials provided by PTB its subsidiaries or employees.

Our procedures and enquiries do not include verification work nor constitute an audit in accordance with Australian Auditing Standards (“AUS”), nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

Other sources of information that we relied upon are outlined in Appendix 1 of this report.

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly subsequent to the issue of the report, our conclusions and opinions may differ from those stated herein. There is no requirement for WBSL to update this report for information that may become available subsequent to the date of this report.

This report has been prepared specifically for PTB shareholders. Neither WBSL, William Buck (Qld) Pty Ltd, nor any member or employee thereof undertakes responsibility to any person, other than PTB shareholders, in respect of this report, including any errors or omissions, howsoever caused. This report is “General Advice” and does not take into account any person’s particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice you should consider, with or without the assistance of a securities adviser, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

Shareholders should read the Explanatory Memorandum and Meeting Documentation (“the Transaction Documents”) issued by PTB prior to proceeding with an investment decision. WBSL had no involvement in the preparation of the Transaction Documents and as such WBSL, its officers, representatives, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from the information contained in

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the Transaction Documents or any loss or damage suffered by any person directly or indirectly through relying on this information.

WBSL provided draft copies of this report to the Directors and management of PTB for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of WBSL alone. Changes made, if any, to this report as a result of review by Directors and management of PTB have not changed the methodology or conclusions reached by WBSL.

In accordance with s648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with PTB, IAP or any related parties or associates there to that would compromise our impartiality. Our fee is not contingent upon the success or failure of the Proposed Transaction, and is calculated by reference to time spent at normal professional fee rates for work of this type. WBSL does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion.

WBSL consents to the issue of this report in the form and context in which it is included in the Transaction Documents to be sent to PTB shareholders.

12. APPENDICES

APPENDIX 1 – POLICY STATEMENTS 74 AND 75

Policy Statement 74: Acquisitions Agreed To By Shareholders

ASIC Policy Statement 74 (PS74) details the procedures to be followed by, and the obligations of, directors of a company seeking shareholders to approve an allotment or purchase of shares.

The policy states that the directors of such a company should provide to the non-associated shareholders (that is, the shareholders not party to the share transaction) all of the information they would require to assess whether the said transaction is fair and reasonable.

PS74 requires that in providing such a report the independent expert should ensure their evaluation:

- Should be judged in all circumstances of the proposal, that is, consider the proposal as a whole;
- Compare the likely advantages and disadvantages for the non-associated shareholders if the proposal is agreed to, with the advantages and disadvantages to those shareholders if it is not agreed to;
- Consider the value of the consideration; and
- Consider whether the shareholders are paying a premium for control.

Comparison of the advantages and disadvantages of accepting the proposal, and the advantages and disadvantages of not accepting the proposal is only part of the required analysis. The expert must also consider the value of the shares.

Policy Statement 75: Independent Expert's Reports To Shareholders

PS75 is primarily concerned with takeover transactions. PS75 notes the following:

- The statement by an expert as to whether a proposed transaction is fair and reasonable should be distinguished from any recommendation as to whether or not the offer or proposal should be accepted;
- Regardless of whether the proposed transaction is fair and reasonable, the expert should seriously consider whether it is in the best interests of the shareholders to accept it in the absence of another offer;
- An offer is fair if the value of the offer price, or consideration paid, is equal to or greater than the value of the securities the subject of the offer;
- The comparison (to establish fairness) should be made assuming 100% ownership of the target company. In their assessment of fairness, the expert should not consider the percentage holding of the offeror in the target company;
- An offer is reasonable if it is fair. An offer may be reasonable even if not fair, but after considering the other significant factors, shareholders should accept the offer in the absence of another;
- The expert should always include a statement that the offeree's decision whether to accept an offer may be influenced by their particular circumstances (for example taxation) and if the offeree is in doubt they should consult an independent advisor;
- Factors an expert might consider when deciding whether the offerees should accept the offer:
 - the offeror's pre-existing entitlement to shares in the target company;
 - other significant shareholding blocks in the target company;

- the liquidity of the market in the target company's shares or the probability that an alternative offer might be made;
 - taxation losses, cash flow or other benefits through achieving 100% ownership of the company;
 - any special value of the company to the offeror such as particular technology, potential to write off outstanding loans from the target etc; and
 - the value to an alternative offeror;
- If the offeror is offering consideration other than cash, the expert must value that consideration in order to compare it with the valuation of the target's securities. This is particularly important where the offer includes shares. The same basis should be used to value both the target and the offer, unless sound reason exists for not doing so;
 - The expert should usually give a range of values for non-cash considerations;
 - If the expert uses the market price of securities as a measure of comparative value, he or she should consider the depth of the market for those securities and the volatility of their market price; and
 - Where the consideration may include securities to be issued by the offeror, and the target company would become a controlled entity of the offeror, the comparisons should be applied to the notionally consolidated statements. The comparison should include the assets and liabilities of the target and the dilution effect of the acquisition on the target earnings, asset backing and dividends. The expert should discuss the basis for assessing the dilutions.

APPENDIX 2 - SOURCES OF INFORMATION

The information we have relied upon in the preparation of our report is detailed below:

1. Unaudited Consolidated Financial Statements of the IAP for the years ended 30 June 2004 to 2006, as prepared by management.
2. Information memorandum provided by the management of IAP.
3. Audited Financial Statements of PTB for the financial years ended 30 June 2004 – 2005 and for the half year ended 31 December 2005.
4. Unaudited financial statements of PTB for the year ended 30 June 2006.
5. Company announcements and share price information as published on the NSX and reported by Bloomberg in respect of PTB.
6. Discussions with the management of PTB regarding past performance and future expectations of both of the businesses.
7. Publicly available information regarding the current and forecast economic environment and the Australian Aircraft Manufacturing industry.

APPENDIX 3 – SUMMARY OF VALUATION METHODS

A summary of the Business Valuation approaches and commonly used valuation methods considered by WBSL, has been outlined below.

Method

“Value” is normally assessed to be the future economic benefits that are expected to be derived from ownership of an asset and there are a number of commonly accepted valuation methodologies that are used to determine its value:

- Discounted cash flow
- Capitalisation of future maintainable profits
- Value of Net Tangible Assets as a Going Concern
- Orderly realisation of assets
- Capitalisation of future maintainable dividends
- Comparable sales of shares
- Rules of Thumb
- A combination of the above methods

Discounted Cash Flow

Normally this approach provides the most valid basis for valuing an asset. It is based on the theory that the value of a business depends on the future net cash flow of the business, discounted back to a present value at an appropriate discount rate. Critical factors in this method of valuation are the determination of an appropriate discount rate and the identification of the actual cash flows, both capital and operational.

Discounted cash flow calculations can be particularly appropriate in valuing businesses in a growth phase or having large irregular cash flows to support fixed asset replacement and also in start-up businesses where no earning history exists and cash flows will be irregular. The methodology incorporates a future terminal value based on maintainable operating cash flows.

Capitalisation of Future Maintainable Earnings

For industrial and commercial entities, it is generally assumed that they will have an almost infinite life. It is also considered too difficult to make forecasts of future cash flows for too many years in the future. It is usual in these circumstances to estimate the future maintainable profits as a substitute for the future cash flows and to multiply this earnings figure at an appropriate price earnings multiple.

Value of Net Tangible Assets as a Going Concern

The value of assets on a going concern basis is often used to value companies holding real estate portfolio investments, or other assets that are surplus to operating requirements. This method is normally only applied to controlling interests in passive investment companies or the like.

Orderly Realisation of Assets

Normally a controlling shareholder has the capacity to liquidate a company or its underlying assets and therefore the value of a controlling shareholding is normally no less than that shareholder's proportion of the estimated value of the net assets of the company. This method is often applied where the outlook for future earnings is uncertain or where the capitalised value of such earnings is less than the net realisable value of the assets employed.

APPENDIX 3 – SUMMARY OF VALUATION METHODS (Continued)

Capitalisation of Future Maintainable Dividends

This method is usually applied to the valuations of minority interests in companies. The concept is that the dividend flow is all that a minority shareholder will receive and the minority shareholder will not be able to influence this dividend flow.

Comparable Sales of Shares

The price at which shares have sold in a private company is often an indicator of the value of the shares, particularly if such sales were recent and were between willing and well informed (but not anxious) buyers and sellers.

Rules of Thumb

Sometimes shares and assets such as brand names are valued in an industry, based on a rule of thumb method. In many cases these methods have no technical validity, albeit that they are widely used. For example, the relief from royalty method is often used to value trademarks such as brand names.

A Combination of Methods

Often a combination of the above methods will be used to value constituent parts of the business. Often it is also appropriate to value a business using different methods, in order to arrive at an appropriate valuation.

Financial Services Guide
General Advice – Expert's Report

Financial Planning Association of Australia
Principal Member

Version 7, 24 October 2005

This guide is designed to assist you in deciding whether to use any of the services we offer and:

- How we and our associates are paid;
- Any potential conflict of interest we may have; and
- Our internal and external dispute resolution procedures and how you can access them.

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Introduction

William Buck Securities Ltd, ABN 91 010 208 107 ("we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of an Expert's Report for inclusion in a disclosure or other document in relation to the issuing of a financial product.

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What kinds of financial services are you authorised to provide to me?

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 - deposit products other than basic deposit products;
- Derivatives limited to:
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- Debentures, stocks or bonds issued or proposed to be issued by a government;
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 - investment life insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds; and
 - life risk insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds;
- Interests in managed investment schemes including:
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- Retirement Savings Accounts ("RSA") products (within the meaning of the Retirement Savings Account Act 1997);
- Securities; and
- Superannuation.

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If you have any complaint about the service provided to you, you should take the following steps.

1. Contact us and tell us about your complaint.
2. If your complaint is not satisfactorily resolved within three business days, please contact the Complaints Officer, on (07) 3233 3555, or put your complaint in writing and send it to us at:

The Complaints Officer
William Buck Securities Ltd
GPO Box 736
BRISBANE QLD 4001

3. If you still do not get a satisfactory outcome you can contact the Financial Industry Complaints Service Ltd (FICS) of which William Buck Securities Ltd is a member. FICS can be contacted on 1300 780 808 or you can write to them at PO Box 579, Collins Street West, Melbourne Vic 8007.

The Australian Securities & Investments Commission (ASIC) has a freecall Infoline on 1300 300 630 which you may also use to make a complaint or obtain information about your rights.

If you have any further questions about the financial services William Buck Securities Ltd provides, please contact our office on (07) 3233 3555.