

Forestland Investments in the Pacific Northwest

August 2010

Current Situation

-we are a “discovered” asset class

- More money chasing fewer deals
- Lowering rates of return, along with other asset classes
- Exploring new geographical areas in the search for acceptable risk/reward ratios

Forest Investment Attributes

- on the positive:
 - Flexible income
 - Income tax timing
 - Market timing
 - Biological growth
 - Inflation hedge
 - Portfolio diversification
 - Estate Planning
 - Recreation
- on the negative:
 - Difficult entry
 - High due diligence costs
 - Finding candidates
 - Expertise requirements
 - Increasing competition

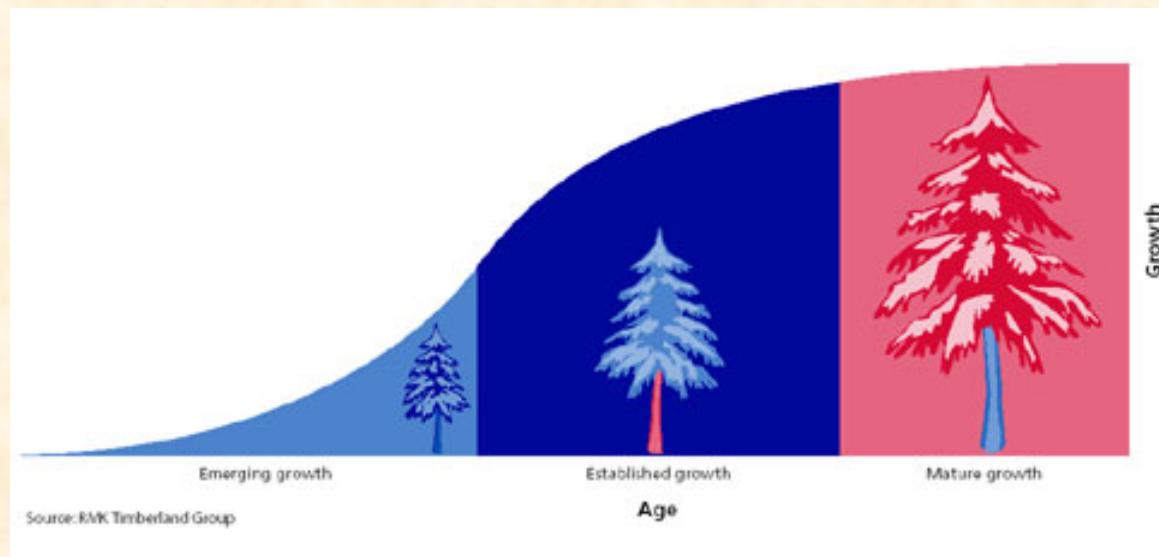
Flexible Income through Harvest Timing

Income Tax: Harvests can be delayed or accelerated to even out income with other revenues.

Market Timing: Harvests can be correlated to higher log prices, taking advantage of the market volatility.

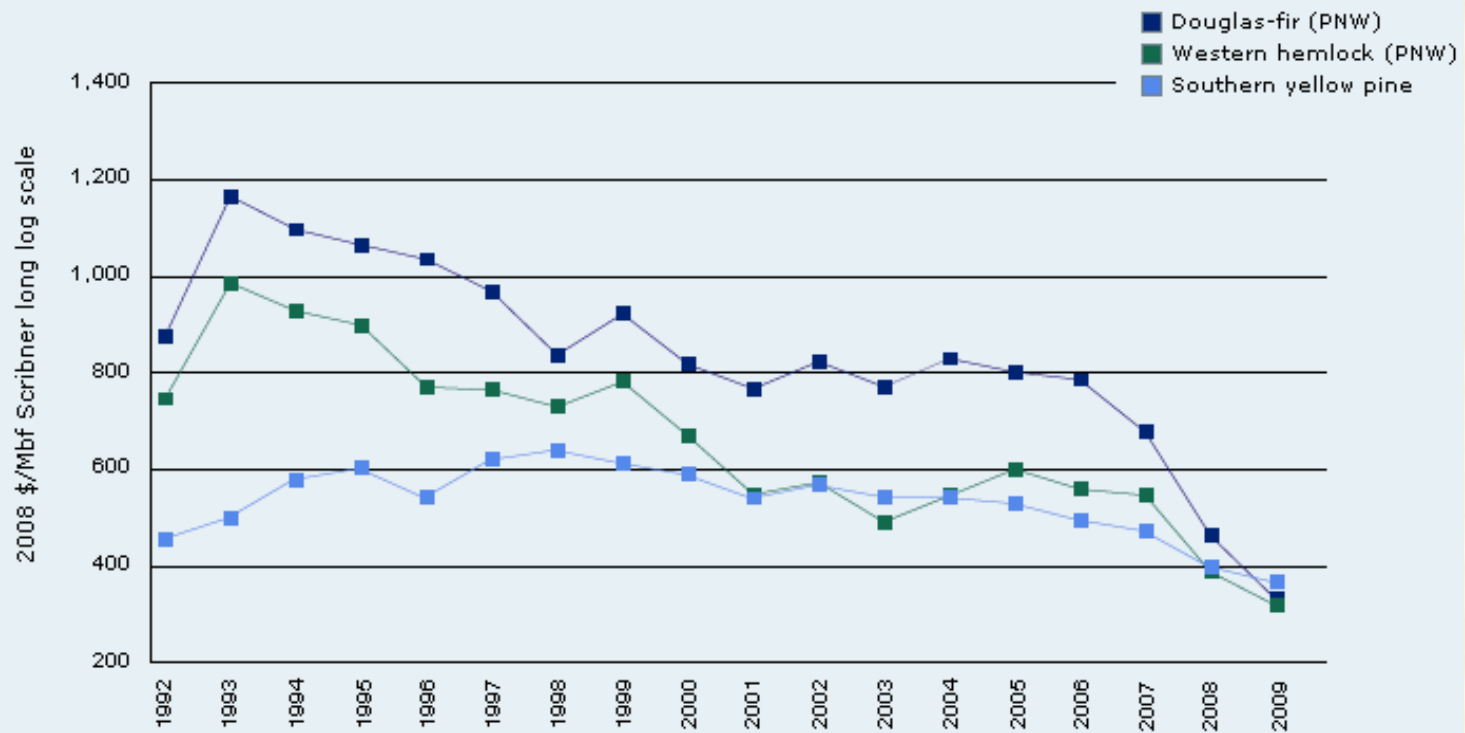
Biological Growth

- * trees grow every year, regardless of economic cycles, politics, or markets
- * as the trees grow larger, they increase in value for the same unit, ie pulp to sawtimber



Price Trends

Delivered Sawlog Prices

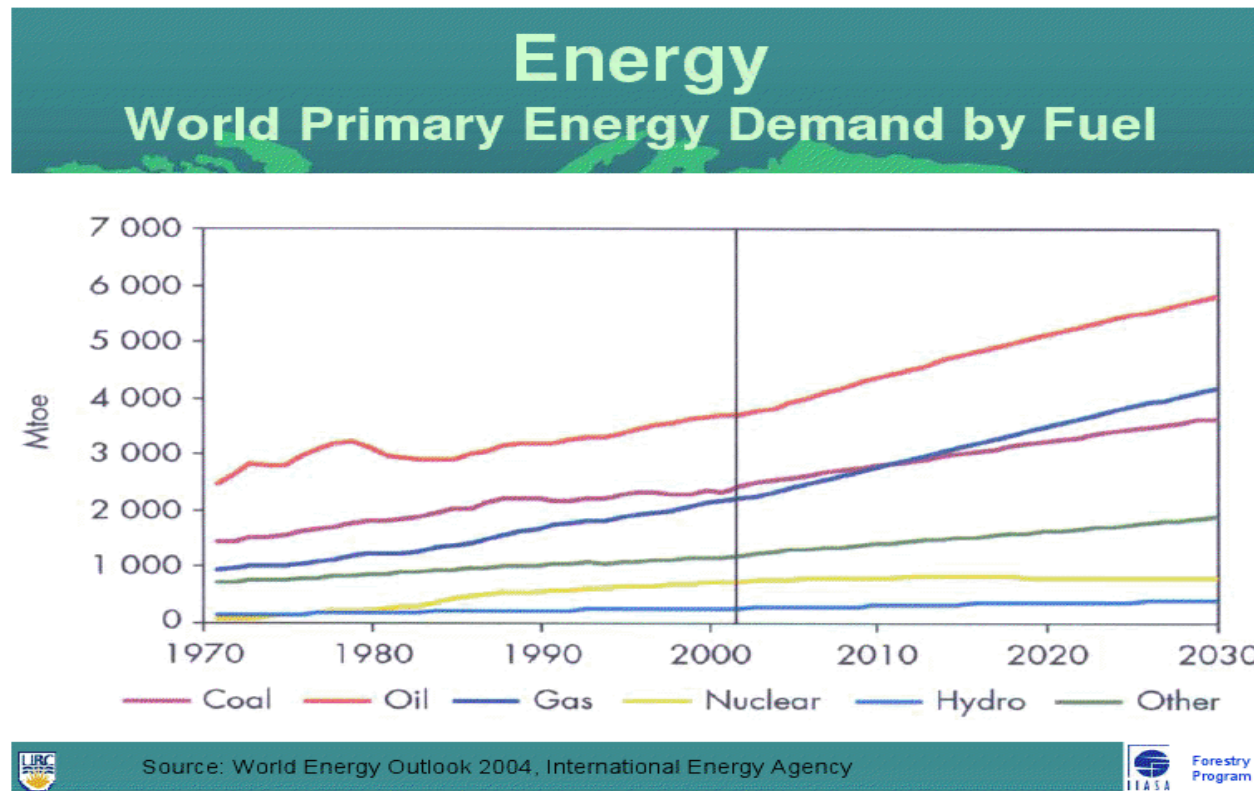


Offsetting Price Trends

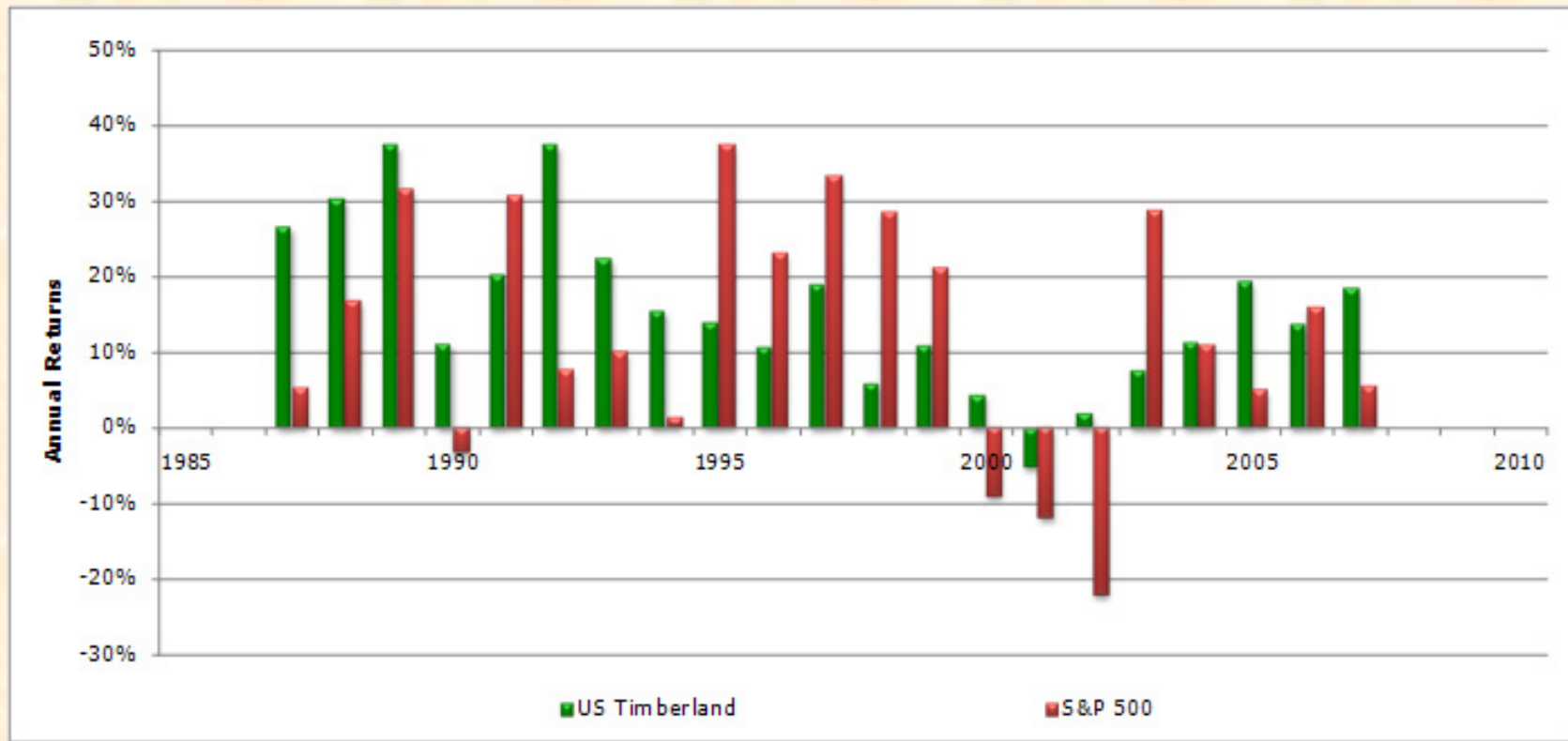
- we have faster growth due to better genetics and improved silviculture
- we can sell smaller logs at sawlog prices because of increased sawmill efficiency and utilization
- the inherent volatility can be used as an advantage
- research shows that financial returns on forestland investments are a hedge against stock markets with negative correlation
- underlying land values tend to rise over time
- wholesale vs retail, “scale”
- looming “supply crisis”
- inflation hedge

Demand for Wood Globally

Most wood harvested in the world is used for energy.

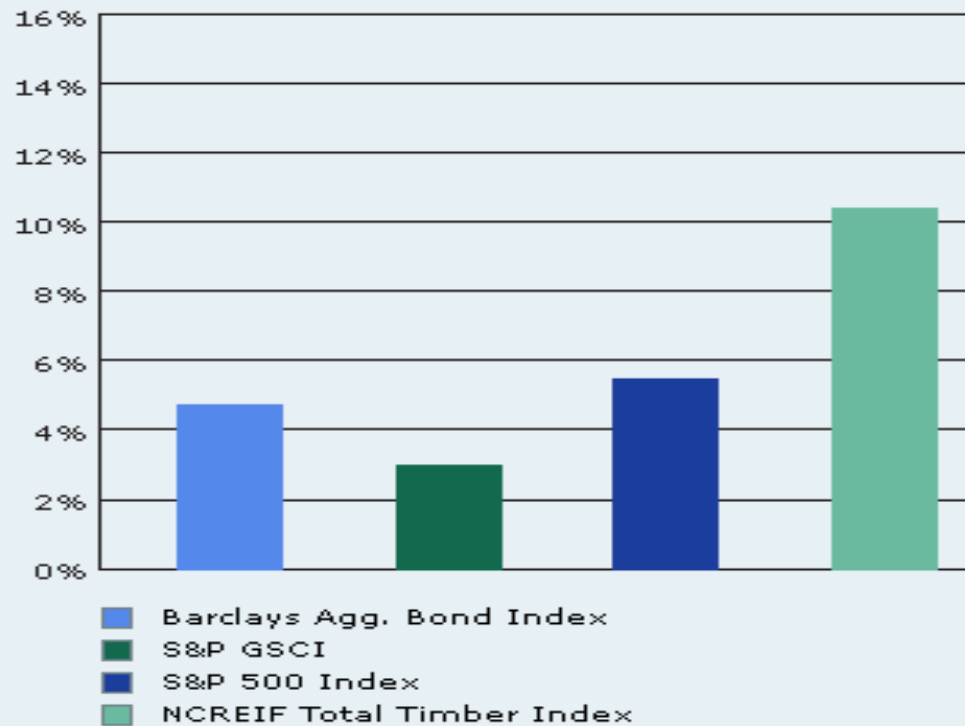


NCRIF 25 Year Annualized Returns



Comparative returns

Annualized Returns Bonds, Commodities, Stocks & Timberland 1987-2009



“Other” returns:

- recreation, hunting, camping, exercise
- PES: Payment for environmental services
- Development value of residential and recreational values, ie HBU
- Green-doing something about renewable resources and sustainable forestry practices
- Back to the basics of growing products from the earth

Establish Investment Parameters

Individual considerations, needs, and requirements

- Required rate of return on investment
- Cash flow requirements, ie age class distribution
- Scale, ie size of investment-retail vs build scale
- Geography: preferred locations
- Quality decisions
 - Site Class, topography, access

Evaluation methodology.

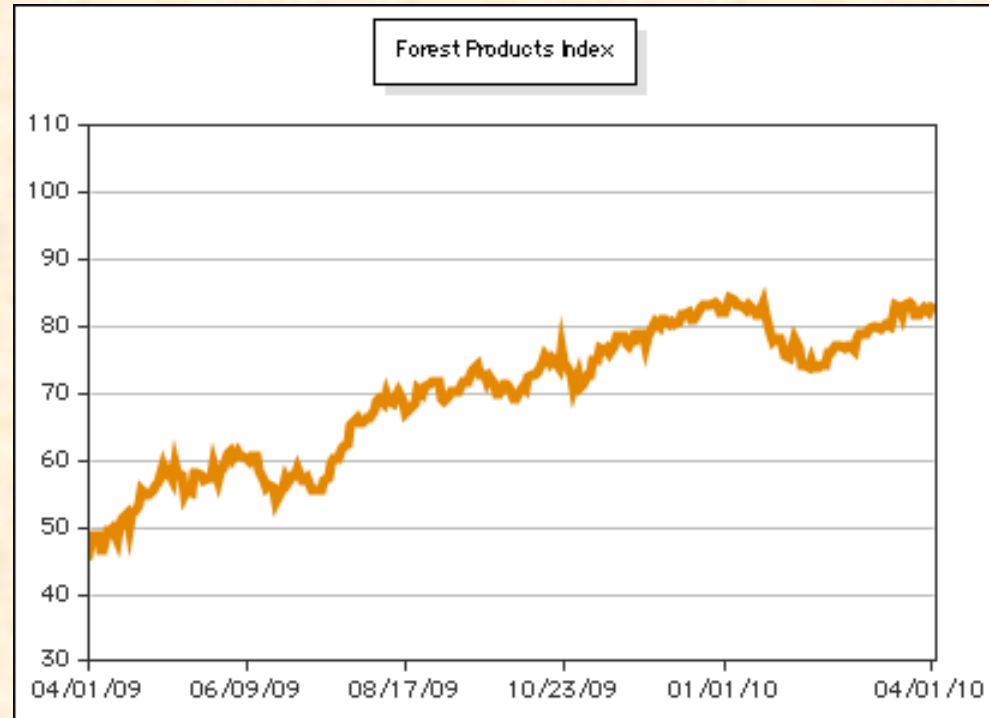
Methods of Appraisal

- Comparable Sales
- Income approach-Discounted Cash Flow
 - Evaluations-fit to the investor
 - Time sensitive-forestry
 - Implement investment parameters
 - Sensitivity analysis
 - Important assumptions; price appreciation, inflation, taxes

Investment Vehicles

- Outright purchase of timberland-owner controlled
 - Purchase through TIMO's
- Stocks or REITS of publicly traded companies
 - Timber Sales, Log trading
- Purchase through investment groups of similar interests and investment objectives.

Major US publicly traded forestry stocks. Lesson in volatility.



What really happens?

- Log markets are volatile
 - Influence of log markets depending on age of trees
 - Market psychology is the driver
- Trade opportunities
- Long term hold advantage
- Opportunistic Situations
 - Motivate buyers
 - Interim income stream
 - Biomass/other markets
 - Carbon credit sales

In Summary

Forestry Investments can provide:

Diversification

A variety of investment vehicles

Inflation and stock market hedge

Green, renewable resource

Tax benefits

“Mental returns” through recreation and exercise

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All prospective investors must make their conclusions based on their own investigations and take full responsibility for their decisions.

Mark Willhite, President
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