Adviser Edge

FEA Plantations Project 2009

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

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

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Star ratings applied to 2008/09 projects are independent of previous year's star ratings.

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Report Date
20 April 2009.

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Investment Summary

FEA Plantations Project 2009 (the Project) provides investors with an opportunity to invest in the hardwood/softwood plantation industries. The Project offers the choice of five investment options.

- Option 1 is a 13-year rotation unpruned hardwood eucalypt sawlog and pulpwood regime
- Option 2 is a 16-year rotation pruned hardwood sawlog and pulpwood regime
- Option 3 is a 25-year rotation radiata pine (softwood) sawlog and pulpwood regime, with an optional buyback offer when the trees are approximately 15 years of age
- Option 4 is an 18-year rotation African mahogany sawlog regime
- Option 5 is a composite of Options 1 to 4

FEA Plantations (FEA Plantations) will act as the Responsible Entity (RE) for this offer. FEA Plantations has been offering plantation investments since 1993, and as of the end of FY2008 had raised approximately $394 million since inception to establish over 72,000ha of predominantly hardwood plantations. FEA has become a significant vertically integrated forestry company with developed downstream processing facilities and strong industry relationships with suppliers and customers.

FEA Plantations is a subsidiary of Forest Enterprises Australia Limited (FEA), which will be responsible for the operational management of the Project. The Option 1 plantations will be established on suitable sites in north-east New South Wales, south-east Queensland, and Tasmania. Most of the Option 2 plantations will be established in Tasmania, with some capacity for development in northern New South Wales. The Option 3 plantations will be established exclusively in Tasmania, while Option 4 plantations will be established in the Northern Territory.

The size of each woodlot is 0.5ha for Options 1 to 3 (inclusive) and 0.2ha for Option 4. Investors are required to pay an Establishment Fee of $3,450 plus GST per woodlot for each of Options 1 to 4 (inclusive) and $23,000 plus GST per Diversified Forestry Offer (DFO) for Option 5, which comprises four woodlots of Option 1 and one woodlot for each of Options 2 to 4 (inclusive). No ongoing annual fees will be levied to investors, although investors in Option 2 will be levied the costs associated with pruning these plantations. All ongoing management and lease fees are deferred and deducted as a percentage of harvest proceeds. Following the thinning and final harvest operations, the net harvest proceeds (less all deferred management and lease fees) for each woodlot option will be pooled and distributed to investors.

The majority of the returns for each woodlot option will occur at the conclusion of each rotation when the trees are clearfell harvested. It is expected that smaller returns will also be generated when the plantations are commercially thinned.

The Options offer a range of investment opportunities with varying risk and return profiles and terms, managed by a quality manager with a proven track record. In particular, the Option 5 offering provides investors with a diversified exposure to the plantation forestry industry.

The potential investment returns of each woodlot option will be affected by a number of performance parameters. The Project Options are expected to be most sensitive to variations in plantation growth rates as this will affect both the total yield on the woodlots and the average price paid for the timber due to changes in recovery rates. Based on the analysis of the various parameters that contribute to investment returns, Adviser Edge has estimated an indicative pre-tax IRR range of between:

- 4.69% and 10.17% per annum for Option 1
- 5.64% and 11.38% per annum for Option 2
- 4.93% and 9.15% per annum for Option 3
- 5.76% and 14.14% per annum for Option 4, and
- 5.23% and 11.13% for Option 5.

Based on the Adviser Edge investment ratings model and a blend assessment model, the Options in the FEA Plantations Project 2009 have achieved the following investment ratings:

- Option 1: 4 stars
- Option 2: 4¼ stars
- Option 3: 4 stars
- Option 4: 3½ stars
- Option 5: 4¼ stars

Option 1: Adviser Edge Rating ★★★★☆
Option 2: Adviser Edge Rating ★★★★½
Option 3: Adviser Edge Rating ★★★★☆
Option 4: Adviser Edge Rating ★★★½☆
Option 5: Adviser Edge Rating ★★★★½

Project Details	
Project Name	FEA Plantations Project 2009 Option 1, Option 2, Option 3, Option 4 and Option 5 (Diversified)
Product	Sawlogs for timber processing, and pulplogs for pulp and paper manufacture • Options 1, 2 and 4 are hardwood species • Option 3 is a softwood species • Option 5 contains hardwood and softwood species
Responsible Entity	FEA Plantations Limited
Project Manager	Forest Enterprises Australia Limited
Investment Details	
Investment Term	Option 1: Approximately 14 years Option 2: Approximately 17 years Option 3: Approximately 16 or 26 years Option 4: Approximately 19 years Option 5: Approximately 19 or 26 years
Investment Unit Size	0.5ha per woodlot for Options 1, 2, or 3 0.2ha per woodlot for Option 4 3.2ha per Diversified Forestry Offer (DFO) for Option 5
Option 5 components	Fixed ratio of seven woodlots (Four Option 1 woodlots and one of each of Option 2 to 4 woodlots (inclusive)
Establishment Fee	$3,450 (ex GST) per woodlot for Options 1, 2, 3 & 4 $23,000 per DFO for Option 5
Ongoing Fee Structure	Deferred rent and maintenance fees (no ongoing annual payments)
Additional costs	Pruning costs (Options 2 & 5) and insurance
Minimum Investment	One woodlot or one DFO
Close Date for FY2009	30 June 2009
Investor Finance	Available
ATO Product Ruling	Pending
Investor Returns	
Potential investment returns (per annum)	Option 1: 4.69%–10.17% (pre-tax) Option 2: 5.64%–11.38% (pre-tax) Option 3: 4.93%–9.15% (pre-tax) Option 4: 5.76%–14.14% (pre-tax) Option 5: 5.23%–11.13% (pre-tax)

Key Points:

Strengths of the Project

- FEA is considered to be one of the most experienced plantation forestry management companies in Australia, with one of the best track records in the industry
- The long-term market outlook for both the softwood and hardwood industries is positive
- Sites in Tasmania are supported by empirical data to support growth yields, with many sites, including FEA's earlier MIS projects, exceeding initial estimates
- FEA is considered to be in a good financial position
- The fee structure for each Option is considered to appropriately share the risks between FEA Plantations and the investor. The overall fees for Options 1 to 3 (inclusive) and 5 are considered to be reasonably priced
- Option 5 provides good geographic diversification across regions, with a majority of the plantations being allocated to the relatively lower risk regions of Tasmania and the New South Wales Northern Tablelands

Weaknesses of the Project

- There is a general lack of information to support plantation yield and price for African Mahogany
- While there may be growth information to support yield estimates for the sub-tropical eucalypt species, it is not yet available or difficult to source. FEA and Forestry New South Wales are currently developing growth curves to assist yield modelling for these species
- The overall fees for Option 4 are considered to be high, although in comparison to its peers, overall fees are considered competitive
- FEA has continued to diversify its earnings in downstream processing. However, FEA continues to be reliant on MIS sales for income in the short-term

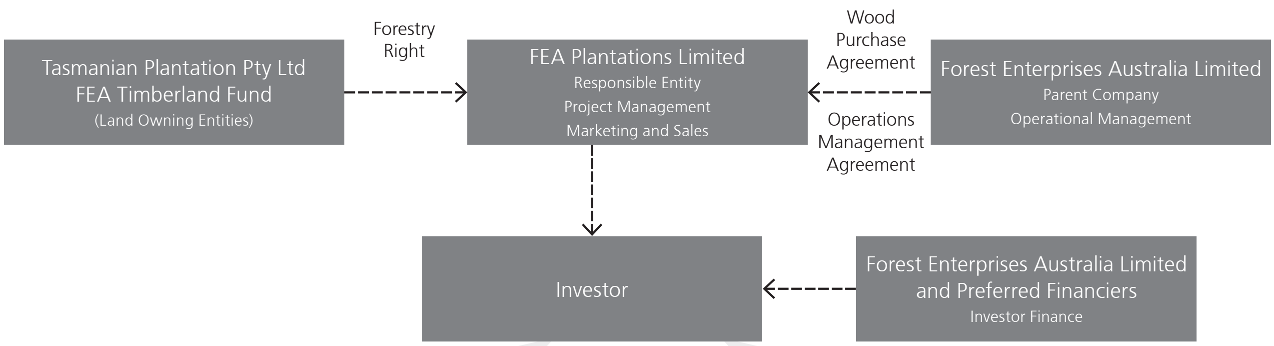
Other considerations

- FEA achieved significant growth in MIS sales in FY2008. FEA needs to, and has advised that it will, continually monitor its ability to meet its quality standards when determining the total number of applications to be accepted
- A liquid secondary market does not currently exist for MIS forestry investments, although this may change in the future

Investor suitability

As a general note, investment in agribusiness should represent a balance between the various potential risks and the forecast returns. This project offers a moderate to high-risk profile over the long term, with reasonable pre-tax returns across the estimated range. The Project incorporates a diverse range of products with the risk profile ranging from moderate (Options 1, 2, 3, 5) to high (Option 4).

Key Counterparties



Forest Enterprises Australia Limited (Parent Company/Operations Manager)

Forest Enterprises Australia Limited (FEA) was initially founded in 1985 to focus on the establishment of eucalyptus plantations in Tasmania and other areas of mainland Australia. Since the establishment of its first plantation in 1987, FEA has expanded its business to become a leading Australian plantation manager, with over 72,000ha of hardwood plantations under management. FEA is listed on the Australian Securities Exchange (ASX Code: FEA), and as at 30 June 2008 had net assets of $331.7 million.

FEA has continued to invest in downstream processing facilities. In 2008, FEA opened its $72 million timber processing operations at Bell Bay and confirmed a 10-year supply contract for softwood sawlogs in Tasmania. FEA also manages a jointly-owned wood fibre processing and export facility, SmartFibre Pty Ltd (SmartFibre). SmartFibre is the joint venture entity, which is 50% owned by FEA and 50% owned by ITC Limited. These two key achievements are part of FEA's goal to reduce reliance on MIS to drive profit growth in the future. FEA plans to expand its operations by actively seeking opportunities for strategic acquisitions, and is confident that there are opportunities for growth within the company's existing MIS and timber processing operations. FEA will also act as the operations manager for the FEA Plantations Project 2009.

Board of Directors

Board of Directors – Forest Enterprises Australia Limited

Director	Credentials	Industry	Director
William Edwards – Chairman	★	★	★
Anthony Cannon – Executive	★	★	★
Michael Williams – Non-Executive	★	★	★
Desmond King – Non-Executive	★	★	★
Vincent Erasmus – Non-Executive	★	★	★

Key Points:

- FEA has substantial experience in the establishment and management of forestry plantations
- FEA boasts a highly credentialed Board of Directors
- FEA is focused on vertical integration through acquisition and investment in processing infrastructure
- FEA is considered to be in a good financial position

Adviser Edge believes that the board members of FEA possess a sufficient and wide array of skills and capabilities necessary for the company to fulfil its role as manager of MIS projects in the best interests of the growers.

Corporate governance and compliance

Adviser Edge has reviewed corporate governance documents supplied by FEA, including a corporate governance code, board charter, compliance plan and risk management policy, and is satisfied that it has adopted corporate and financial management procedures consistent with industry best practice. FEA reports that it is in compliance with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

Financial performance

Key Financial Data – As at 30 June

Financial Profitability	2008	2007
Revenue ($m)	145.79	101.66
Net profit ($m)	48.14	37.27
Profit margin (%)	33.0%	36.7%
ROCE (%)	14.0%	16.6%
ROE (%)	14.5%	12.9%

Key Financial Data – As at 30 June		
Market Measures	2008	2007
EPS (basic/cents)	11.88	11.82
P/E ratio	4.2	6.0
DPS (cents)	2.5	2
Dividend yield (%)	5.0%	2.8%
Dividend payout ratio	0.21	0.17
NTA per share ($)	0.819	0.711
Financial Liquidity/Solvency	2008	2007
Net working Capital ($m)	-13.0	20.4
Current Ratio	0.93	1.18
Quick Ratio	0.46	0.83
Debt to equity ratio	1.11	0.54
Gearing[1]	53%	35%
Interest Coverage Ratio	17.4	26.5

Source: Forest Enterprises Australia Limited, Annual Report 2008.
The financial ratios are based on share price information provided for the close of trading on the last day of the financial year for which they are quoted.
[1] Gearing is calculated as Total Liabilities/Total Assets.

FEA had a relatively successful year in FY2008, achieving a 29% increase in net profit after tax on the back of $114.5 million in MIS sales, up over 90% from the previous financial year. As a result, MIS projects under management will increase substantially to 67,550ha, due to approximately 18,000ha of plantations due to be established under the FY2008 MIS sales.

The increase in sales will put pressure on FEA's balance sheet and operational resources to acquire land and provide the services required under the MIS projects. However, FEA is well placed to meet these pressures. As a result of a timely capital raise of $67.5 million in FY2007, FEA's balance sheet is conservatively leveraged, with financial leverage of under 30%. This is despite a substantial increase in borrowings during FY2008 to fund land purchases. Nonetheless, while FEA is seeking to increase its earnings in timber processing, it continues to be reliant on MIS sales to generate income in the short-term.

Adviser Edge believes that FEA is in a good financial position and its strategy to reduce reliance on MIS revenue is a prudent strategy for achieving long-term sustainability. FEA has relatively low levels of debt, despite a substantial increase from FY2007, which should provide balance sheet capacity to meet FEA's obligations to MIS investors. However, FEA needs to continue to monitor its balance sheet and operational capacity to ensure that its resources are not over-extended, and that the business is capable of withstanding a downturn in MIS sales.

FEA Plantations Limited (Responsible Entity/ Project Manager)

FEA Plantations Limited (FEA Plantations) is the Responsible Entity (AFSL number 243515), for the FEA Plantations Project 2009. FEA Plantations has raised over $394 million in capital since 1993 and manages plantation investments situated throughout Tasmania, northern New South Wales and southern Queensland on behalf of more than 11,000 investors. Under the Constitution, each grower will engage FEA Plantations to fulfil the plantation establishment, management services, harvesting and marketing requirements over the Project term. As Responsible Entity, FEA Plantations delegates all operational management to FEA under an operational management agreement.

Forest Enterprises Australia Limited (Operational Management)

Under the operational management agreement, FEA has responsibility for the operational management of the Project, including site acquisition, site preparation, planting, weed management, fertilising, and other silvicultural and management applications. While FEA's 195 employees include a professional forestry team to undertake much of the planning and supervision of operations, they will also employ external contractors to undertake work as required. Under such arrangements, contractors will be supervised by FEA in accordance with FEA systems and quality assurance procedures.

Key Operational Personnel – Forest Enterprises Australia Limited			
Key Personnel	Credentials	Industry	MIS
Andrew White – Chief Executive Officer	★	★	★
Anthony Cannon – Director, Forestry Services	★	★	★
Ken Last – General Manager, FEA Timber	★	★	
Chris Barnes – General Manager, Plantations	★	★	★
Andrew Wye – General Manager, SmartFibre	★	★	★
Doug Massey – General Manager, Strategic Development	★	★	★
Mike O'Shea – General Manager, Business Development (Forestry)	★	★	★
Andy Corbould – Manager, Forestry Services	★	★	★

FEA's senior management team remains largely unchanged from the previous product offering and Adviser Edge believes that this team has the qualifications and experience required to manage a project of this size, diversity and structure. FEA's plantation management team is highly regarded, with excellent credentials and significant amount of experience in the plantation industry. The substantial increase in plantations under management in FY2008 means the team will need to work efficiently to establish plantations on schedule and to acquire land that meets FEA's land selection criteria.

Additional analysis of the management counterparties can be found in the FEA Plantations Project 2009 Supplementary Document available on the Adviser Edge website at www.adviseredge.com.au.

Investment Specifications	
Maximum subscription	Option 1: 24,800 woodlots (12,400ha) Option 2: 3,200 woodlots (1,600ha) Option 3: 2,000 woodlots (1,000ha) Option 4: 2,500 woodlots (1,000ha)
Locations	Tasmania (Options 1, 2 and 3), north-east New South Wales (Options 1 and 2), south-east Queensland (Option 1), and Northern Territory (Option 4)
Unit size	0.5ha per woodlot in either Option 1, 2 and 3 0.2ha per woodlot in Option 4
Number of trees per unit	600 for Options 1 & 2, 665 for Option 3 and 240 for Option 4
Minimum application	One woodlot for Options 1 to 4 and one DFO equal to seven Woodlots for Option 5
Liquidity	Illiquid – no established secondary market
Insurance	Not compulsory*
Investor finance provider	Finance available through FEA and preferred financiers

* Insurance is required where certain finance arrangements are entered into by the investor

Key Points:

- There are no ongoing fees and costs (except insurance and pruning fees for Option 2 only)
- Management and rental fees are deferred and will be deducted from harvest proceeds
- Investors have the option to insure their woodlots after FY2012
- Pruning fees are payable for an investment in Option 2
- The minimum investment is one woodlot

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 Product Disclosure Statement (PDS). It is recommended that each potential investor and their adviser read and understand the Project agreements to ensure that the Project is suitable for the investors needs.

Woodlot Option 1 – Unpruned Eucalypt Hardwood (Option 1)

The Option 1 investment will involve the production of eucalypt hardwood pulplogs and sawlogs for the domestic and export markets. It is expected that the majority of the sawlog component will be manufactured for the production of structural-grade hardwood lumber for use in the domestic construction markets. Where FEA undertakes the processing, the processed timber will be sold under FEA's EcoAsh® brand. The Tasmanian pulplogs will be processed and exported as woodchips for use in the pulp and paper industry under the SmartFibre joint venture. Option 1 is expected to run approximately 13 years from the planting date. FEA has indicated that Option 1 will be established around Walcha and Armidale (48%), near the Queensland and New South Wales border (26%), and Tasmania (26%). These proportions are estimates only and may vary depending on land selection, which is not expected to be completed until applications for investment in the Project closes.

Woodlot Option 2 – Pruned Eucalypt Hardwood (Option 2)

The Option 2 investment will involve the production of eucalypt hardwood pulplogs and pruned sawlogs for the domestic and export markets. A selection of the Option 2 trees will be pruned for the production of higher-value logs that have the potential to yield clear grade lumber. It is expected that the sawlog component will be manufactured into structural and high-value clear grade lumber for use in domestic construction markets (e.g. FEA's EcoAsh® and EcoAshclear® brands, when FEA undertakes the processing and marketing of the processed timber), while the Tasmanian pulplogs will be processed and sold as woodchips for use in the pulp and paper industry under the SmartFibre joint venture. Depending on growth, FEA intends to prune the Option 2 woodlots when the trees reach the ages of approximately three, five and seven. This corresponds to project years four, six, and eight. The pruning quality will be audited to the standards of the Australian Forest Growers (AFG) Pruned Stand Certification (or similar). The term of Option 2 is approximately 16 years from the planting date. FEA has estimated that Option 2 is expected be established predominantly in Tasmania (75%), with the balance planted near the Queensland and New South Wales border (25%). These proportions are estimates only and may vary depending on land selection, which is not expected to be completed until applications for the investment in the Project closes.

Woodlot Option 3 – Radiata Pine Softwood (Option 3)

The Option 3 investment will involve the establishment, management, harvesting, and sale of radiata pine pulpwood and sawlogs for the domestic and export markets. It is expected that a proportion of the sawlog component will be manufactured into structural grade timber for construction markets under FEA's BassPine® brand. The term of the investment is approximately 25 years from the planting date, although FEA has committed to undertaking a buy-back offer at 90% of the market value when the trees are around 15 years of age. FEA will manage the plantations so that trees which demonstrate good form in the early years will be grown for the full term of the investment. To promote the growth of these trees, Option 3 will be commercially thinned when the trees are approximately 13 and 18 years of age. The Option 3 plantations will be established on appropriate sites in Tasmania.

Woodlot Option 4 – African Mahogany Hardwood (Option 4)
The Option 4 investment will involve the establishment, management, harvesting and sale of pruned African mahogany hardwood sawlogs. It is anticipated that the sawlogs will be processed and used for high value applications such as furniture, windows and doors, decking and boat building. The African mahogany trees will be pruned at the RE's expense up to three times, approximately two, four and six years after planting. The trees will be commercially thinned at age 11. Clearfall harvest is expected to occur approximately 18 years after planting. Option 4 will be established in the Douglas Daly region and other suitable sites in the Northern Territory.

Woodlot Option 5 – Diversified Forestry Offer (DFO) (Option 5)
Option 5 offers investors a fixed ratio investment into Options 1, 2, 3 and 4 of the FEA Plantations Project 2009. Each DFO unit consists of four Option 1 woodlots, one Option 2 woodlot, one Option 3 woodlot and one Option 4 woodlot. Each woodlot for Options 1, 2 and 3 is 0.5ha in area and each woodlot for Option 4 is 0.2 ha; consequently, one Option 5 DFO unit is 3.2ha. Option 5 provides investors a 4.76% discount to the Establishment Fee payable on a separate investment in each of the underlying Options.

Fee Schedule

The fees outlined in the following tables relate to an investment made on or before 30 June 2009. Fees may vary depending on the date of application.

The fee structure for the Project involves an Establishment Fee, and deferred management and rental fees, which are deducted from harvest proceeds. In addition, Option 2 and 5 investors are required to pay three pruning fees over the Project term.

Initial and Deferred Fees (ex GST)

Payment Type	Cost Per woodlot (ex GST)
Establishment Fee	$3,450 for Options 1, 2, 3 & 4 $23,000 for Option 5
Deferred Management Fee	4% of GHP* for Options 1 & 2 3% of GHP* for Option 3 5% of GHP* for Option 4
Deferred Rental Fee	14% of GHP* for Options 1 & 2 12% of GHP* for Option 3 15% of GHP* for Option 4

^ GHP = Gross Harvest Proceeds.

Ongoing Fees (Options 2 & 5 only)*

Payment Type	Cost per woodlot (ex GST)
Year four pruning (FY2013)	$385
Year six pruning (FY2015)	$405
Year eight pruning (FY2017)	$430

* Pruning is likely to occur when the trees are aged three, five and seven, corresponding to project years four, six and eight. These costs are subject to CPI indexation.

The establishment fee is payable to cover land preparation, seedling supply, and planting. Management and rental fees will be deferred and paid as a percentage of the gross harvest proceeds (see above). All timber produced from the Project will be sold on a 'stumpage basis' and proceeds will be distributed to investors after deferred fees are deducted. Stumpage is the value that a purchaser pays to the investor for the timber as a standing crop. It excludes harvesting, transportation, processing and marketing costs, which are borne by the purchaser.

Investors in Options 2 & 5 will need to pay pruning fees, which are likely to occur in FY2013 ($385), FY2015 ($405) and FY2017 ($430).

In addition, the Constitution provides certain other costs that are reimbursed or paid from any harvest proceeds received, including administration costs such as bank charges, brokerages, legal fees, statutory and regulatory charges, printing and postage costs, and the costs of engaging advisers and consultants. FEA has not provided a budget in relation to these costs as FEA has not charged these costs in the past.

Fee Analysis

With any forestry MIS project, the establishment fee is dictated by the actual development cost of establishing the plantation, including land preparation, seedling supply and planting costs, and other administration costs such as corporate overheads, marketing and PDS development expenses, and the profit margin taken by the project manager.

FEA Plantations has increased the Establishment Fee for Options 1 to 3 from $3,150 (ex. GST) to $3,450 (ex. GST) per woodlot. In addition, deferred fees for Options 1 and 2 have increased from 15% to 18% of gross harvest proceeds (ex. GST). The deferred fee for Option 3 has increased from 10% to 15% of gross harvest proceeds. Option 4 is a new offering for FEA Plantations. The change in fee structure for Options 1 to 3 (inclusive) represents an overall increase in fees payable as indicated in the following table.

Adviser Edge has also separately reviewed the pruning fee charged by FEA Plantations for the pruning services provided to Option 2 investors. Provided that the number of trees per hectare intended to be pruned is undertaken (400spha to 450spha), Adviser Edge considers the pruning fee to be reasonable.

Fee Comparison with previous FEA projects ($ per ha)					
Project	2008 establishment fee	2009 establishment fee	2008 deferred fee^	2009 deferred fee^	NPV increase in fees*
Option 1	$6,300	$6,900	15%	18%	10.21%
Option 2	$6,300	$6,900	15%	18%	9.48%
Option 3	$6,300	$6,900	10%	15%	7.32%
Option 4	n/a	$17,250	n/a	20%	n/a

^ Percentage of gross harvest proceeds (calculated on the stumpage price).
* The percentage increase of the net present value of overall fees from the 2008 Project (ex. GST) discounted at IRR of the investment.

Despite the fee increase, Adviser Edge considers the fees charged by FEA Plantations for Options 1, 2 and 3 to be reasonably based. The fee structure provides incentive for FEA to seek positive outcomes for the Project. Adviser Edge considers the establishment fee for Option 4 to be relatively high when considering the per hectare costs of forestry development and management for African mahogany in the Northern Territory. Nonetheless high per hectare costs are a feature of most MIS forestry companies offering forestry projects in the tropics. With this in mind, FEA offers one of the more cost competitive tropical forestry projects when compared to peer tropical MIS projects. The discount available on Option 5 further enhances the competitiveness of this Project offering.

Adviser Edge has analysed the Direct Forestry Expenditure (DFE) calculations provided to the ATO by FEA as part of its Product Ruling application. The breakdown of the DFE for each option is contained in the following table. FEA Plantations has calculated the DFE excluding the harvest costs, as the trees will be sold on a stumpage basis. Adviser Edge considers this to give a better representation of the level of forestry expenditure.

Proportion of Direct Forestry Expenditure				
	Option 1	Option 2	Option 3	Option 4
Establishment Costs	31%	24%	28%	18%
Forestry maintenance	29%	43%	28%	53%
Lease Costs	40%	33%	44%	29%

Risk apportionment

Risk apportionment refers to the level of risk that the Project Manager and RE share as a consequence of the project fee structure. When ongoing project fees are linked to harvest proceeds, and therefore to project performance, the risk sharing between investors and the project manager is more evenly aligned. It also provides a measure of risk mitigation in the event of the RE's insolvency by providing the potential for adequate compensation for a replacement RE.

Adviser Edge believes that the Project provides a reasonable level of risk apportionment. The deferred fee structure provides FEA Plantations with an incentive to seek positive outcomes for the Project. As a result of the fee structure, the sensitivity of the Project to changes in the underlying performance assumptions is reduced due to variation in deferred fees payable.

Additional Information

Taxation advice

FEA Plantations has lodged an application with the ATO for the issue of a Product Ruling for the Project. FEA Plantations will not accept applications into the Project until the Product Ruling has been issued. The investment should not be considered without the issue of a valid ATO Product Ruling.

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.

Finance

Finance is available from FEA preferred financiers to approved applicants. Basic loan details are provided below, and interested investors should contact FEA for full loan terms and conditions, including associated fees and charges. Investors that obtain finance with terms that exceed two years will be required to obtain full insurance against their woodlots.

Finance Options			
Financier	Term	Interest Rate	Repayment Option
Forest Enterprises Australia Limited	12 months	Interest Free	Principal only
	2 years	Contact FEA	Principal and Interest (P&I)
Preferred Financier	1–15 years	Contact FEA	Various – Contact FEA

Source: FEA, 2008

The plantation sites for Options 1, 2, 3 and 4 investments will be located in different regions of Australia. FEA has indicated that the majority of the Option 1 hardwood plantations will be established on suitable sites in the sub-tropical regions of north-east New South Wales and south-east Queensland (74%), with the balance established in northern Tasmania. Most of the Option 2 hardwood plantations will be established in Tasmania (75%), although a small percentage may also be established in the sub-tropical regions (25%). The Option 3 plantations will be established exclusively in northern Tasmania, while the Option 4 plantations will be established in the Northern Territory. Land may be acquired outside the regions identified by FEA. However, the independent forester must approve of those properties prior to inclusion in the Project.

Since 2004, the majority of plantations established by FEA have been located in north-east New South Wales and southeast Queensland. FEA has established over 30,000ha of hardwood plantations in these regions since 2000. FEA also manages a significant plantation estate in Tasmania, with approximately 20,000ha of hardwood plantations and 191ha of softwood plantations currently under FEA management. The Option 4 investment represents FEA's first move at establishing plantations in the Northern Territory.

The site visit to northern Tasmania demonstrated FEA's fully integrated forestry capabilities. FEA has a proven ability to establish and manage high quality plantations in the region.

The site visit to northern New South Wales gave Adviser Edge confidence that FEA has the resources and expertise to manage plantations in the region in line with industry best practices. Historical variability in the performance of some species in this region demonstrates the relative risks associated with pioneering large scale development in areas of Australia where information supporting plantation development is limited. In the past decade, this was certainly the case for FEA when developing plantations in the Northern Rivers and Northern Tablelands region. However, Adviser Edge believes FEA has made considerable progress in identifying suitable species and matching these species to good quality sites in the region.

Despite FEA not having any established African mahogany plantations under management, the site visit to the Douglas Daly region gave Adviser Edge the opportunity to discuss the management objectives of the company in the region. Adviser Edge was able to view the performance of African mahogany on the FEA site that was established and continues to be managed by an unrelated manager. Adviser Edge maintains the view that African mahogany plantations face challenges ahead. As a well established and highly resourced forestry company, FEA is in an excellent position to deal with these challenges.

For a more detailed account of the site inspections performed by Adviser Edge, please refer to Adviser Edge's Supplementary Document for the FEA Plantations Project 2009.

Key Points:

- A stocking guarantee exists for three years after the commencement of the investment or the commencement of general insurance, whichever is the earlier
- There is very good diversification across geographical regions and good diversification across tree species
- Plantations inspected by Adviser Edge in Tasmania and around Walcha, New South Wales, appear to be well managed
- Past performance in the New South Wales and Queensland region has been variable due to a range of issues, including site and species matching. FEA has made considerable progress in this region in identifying suitable species with good quality sites
- The Douglas Daly region in the Northern Territory is the location of the majority of the African mahogany plantations in Australia

Site selection

The sites to be selected for the Project will be selected in accordance with FEA's own site selection criteria. The PDS contains the following site selection criteria:

(a) Average annual rainfall of 800mm to 1,100mm or more

(b) Deep, fertile and well-draining soils suitable for plantation forestry

(c) Proximity to established transport routes for processing infrastructure and ports

The site selection criteria are used as a guide by FEA's forestry professionals when selecting land. This is an appropriate approach, as the diverse site characteristics of each of the Project's proposed planting regions may make fixed criteria unduly restrictive.

Site selection will be undertaken by FEA's professional team and will take into account all factors when determining whether a property is suitable for the Project. The Director of Forestry Services is ultimately responsible for site selection and is required to report to the Compliance Committee as to whether the land is suitable for the Project.

In addition to FEA's internal land selection procedures, the independent forester will review the property evaluation data for every new property included in the Project, and will confirm whether the land complies with the selection criteria. Although it is not stated in the PDS, FEA has indicated that the independent forester will also physically inspect at least 33% of all properties in the Project on an annual basis and will visit all new properties within the first year from either purchase or establishment.

Project returns will be highly dependent on FEA's ability to source and acquire land that meets the requirements of the proposed plantation species. The site selection protocols mean that investors will be highly reliant on FEA's ability to select and acquire appropriate sites for inclusion in the Project. As a consequence of both the limited available data[1] on site suitability of New South Wales Northern Tablelands and Northern Rivers plantation species, and the discretion available to FEA in selecting land, there is increased risk associated with establishing plantations in that region. However, Adviser Edge considers FEA to be highly qualified to select appropriate land in the region.

While there is limited information in relation to the performance of African mahogany in the Douglas Daly region and its potential productivity, Adviser Edge is satisfied that the land selected for Option 4 is appropriate.

[1] FEA has advised that it expects to be in a position to provide meaningful historical data in FY2010. FEA employs a full-time quantitative forestry analyst who is working cooperatively with State Forests New South Wales to develop statistically relevant growth models.

Species and varieties

The species selected for establishment will depend on the planting region and other site-specific factors. FEA will plant a number of different hardwood species for Options 1 and 2, including shining gum ***(Eucalyptus nitens)*** on Tasmanian sites, and Sydney blue gum ***(Eucalyptus saligna)*** and Dunn's white gum ***(Eucalyptus dunnii)*** in the sub-tropical regions. Other species such as Spotted gum ***(Corymbia citriodora)*** and blackbutt ***(Eucalyptus pilularis)*** may also be planted on a smaller scale in the sub-tropical regions. FEA has indicated that radiata pine ***(Pinus radiata)*** will be established as the softwood species for Option 3. African mahogany ***(Khaya senegalensis)*** will be established as the hardwood species for Option 4.

Radiata pine and shining gum are widely used as plantation species in Australia, and have shown strong growth rates across a broad range of sites. In contrast, the species to be established in the sub-tropical regions, including spotted gum and Dunn's white gum, have only recently been established in Australian plantations. As a result, information concerning the growth of these species in plantations is limited. Likewise, African mahogany only has a small plantation base in Australia, and there is a general scarcity of information on the utilisation potential of plantation grown African mahogany.

The growth performance of shining gum and radiata pine is well supported by empirical data. However, the performance of sub-tropical hardwood eucalypts and African mahogany, while promising, is less supported (refer to footnote).

It was evident from site inspections that more needs to be understood in relation to the performance of the sub-tropical eucalypt species in terms of site suitability, growth expectations and tolerance to pests and diseases. In recent years, FEA has changed their species selection in the subtropical regions. This is in response to earlier problems encountered, particularly with spotted gum. The shift to different species is highly promising, however, without mature plantation harvest performance data across a range of sites, the potential plantation performance of these species cannot yet be fully quantified. Despite this, Adviser Edge is confident in FEA's continued ability to adapt in the subtropical region and has demonstrated a long term commitment to the development of a successful plantation region for Australian forestry.

A problem encountered by all African mahogany plantation managers is the issue of poor form. FEA understands these issues and has committed to solving this problem with high initial stocking rates, selective thinning, form pruning and genetic selection.

Site development and site maintenance

FEA will establish 1,200 stems per hectare (spha) for investments under Options 1, 2 and 4, and 1,330spha for investments under Option 3.

Under the PDS, FEA provides a minimum stocking guarantee of 90% of the original stocking rate for a period of three years from the date of investment or the commencement of general insurance cover taken out by investors on their plantations. Depending on actual planting time and the commencement of insurance cover, the guarantee is expected to cover the first one-and-a-half to two years of the plantation's life.

For a detailed analysis of site development and ongoing management operations, please refer to the FEA Plantations Project 2009 Supplementary Document.

Adviser Edge believes that FEA has the means and resources to provide adequate management services on behalf of investors. FEA has significantly expanded its forestry team in the Queensland and New South Wales regions in recent years. Given that the level of developments has increased significantly in these regions, Adviser Edge considers that this approach is prudent and necessary for the proper management of these plantations.

Harvesting and processing

For a detailed analysis of harvesting and processing, please refer to the FEA Plantations Project 2009 Supplementary Document.

FEA has demonstrated the competency and capacity to develop the appropriate harvesting and processing infrastructure for the timber expected to be produced from the Project. FEA's wood processing and export facility at Bell Bay, northern Tasmania is considered to be a world class facility. FEA has also provided Adviser Edge with information that demonstrates its commitment to establishing processing facilities in the northern New South Wales region.

Market Overview				
Product Type	Option 1	Option 2	Option 3	Option 4
Product type	Eucalypt hardwood timber	Eucalypt hardwood timber	Softwood timber	African mahogany sawlogs
Primary use	Pulpwood and sawlog	Sawlog, veneer and pulpwood	Sawlog and pulpwood	Sawlog
Key target market	Domestic, Japan, China and Korea	Domestic, Japan, and China	Domestic	Domestic
Major Competitors	Domestic and international pulpwood and sawlog producers	Domestic and international sawlog producers; substitute products	Domestic and international softwood producers	International producers; substitute products

The long-term nature of the investment means that there is a degree of difficulty associated with forecasting market conditions over the Project term. Additional analysis of the various markets associated with the Project can be found in the FEA Plantations Project 2009 Supplementary Document, available on the Adviser Edge website at www.adviseredge.com.au

Marketing strategy

FEA Plantations intends to sell the timber produced under the Project on a 'stumpage basis'. The stumpage price is the price paid by the purchaser on the assumption that the purchaser will be responsible for the harvest, transport, processing and marketing of the timber. In addition to the marketing arrangements described in this section, FEA Plantations must submit all negotiated timber prices to the independent forester for confirmation that the prices reflect fair current market prices.

Pulpwood

The hardwood and softwood pulpwood produced under Options 1 to 3 (inclusive) are intended to be sold, where it is in the best interests of investors, under the SmartFibre joint venture, and through other woodchip facilities in the regions where the plantations are located. SmartFibre owns and operates the export woodchip facility located at Bell Bay in Northern Tasmania, which was established in 2003. This woodchip facility has the capacity to process and export an average of 600,000 tonnes of wood fibre per annum. SmartFibre has the capability of producing a range of wood fibre grades, exporting hardwood, softwood and mixed shipments. This has proven to be attractive for export customers. SmartFibre's customers are predominantly Asian paper manufacturers. In FY2006-07, SmartFibre signed a five-year wood fibre supply contract with the Japanese paper manufacturer, Nippon Paper.

An issue facing the woodchip supply from FEA's plantations in the Northern Tablelands and Northern Rivers regions is the considerable distance to port from many of the sites. FEA has indicated that the renewable energy sector is a potential destination for these woodchips. The New South Wales Government has mandated a minimum of 5% of energy produced from renewable energy sources to avoid penalties.

Key Points:

- The hardwood woodchip export market is expected to remain fairly stable over the long-term and the markets for higher value hardwood and softwood sawlogs appear to be strong
- FEA has entered into a Wood Purchase Agreement that provides a minimum floor price mechanism for timber produced under Options 1 and 2
- FEA has shown a commitment to establishing downstream processing facilities and arrangements

The independent expert has commented that there are positive factors that can influence the price for woodchips sourced from the Northern Tablelands and Northern Rivers region. This includes shorter shipping distances when compared to southern Australian regions and high wood densities for some of the species grown in the region.

While there is potential for woodchips to be used in the renewable energy sector, Adviser Edge is concerned that the returns that can be achieved from this end use may be substantially less than is achievable from the pulpwood market. FEA has been investigating alternative uses for pulp logs grown in this region. It remains to be seen whether these alternatives will offer higher prices to investors, however, the floor price under the Wood Purchase Agreement provides investors with a degree downside price protection.

Sawlogs
FEA plans to market and sell the sawlogs produced from Options 1 and 2 under the EcoAsh® and EcoAshclear® brands. EcoAsh® sawlogs (unpruned) are sold for use as structural timber, and wall and floor panelling. The EcoAshclear® brand is for the higher value pruned sawlogs. This product is intended to be used for plywood and laminates, decorative veneers and mouldings, higher value flooring, and furniture manufacturing.

The softwood sawlogs produced under Option 3 are intended to be marketed under FEA's BassPine® brand, which covers a broad product range that includes structural timber, flooring and panelling. To support FEA's expansion into the softwood industry, FEA has entered into a long-term 290,000 tonne per annum pine purchase contract with Timberlands Pacific Pty Ltd for the supply of FEA's Bell Bay saw mill and timber processing facility.

The plantations are intended to be processed in FEA's Bell Bay saw mill and timber processing facility, along with other facilities in the region in which the plantations are located. The Bell Bay mill recently underwent a $72 million expansion, which included new 'Optimil' saw technology. This technology has the capacity to increase recovery rates from the processed logs. The mill has the capacity to process one million tonnes per annum.

FEA's plantations have generally been established in regions that have developed wood processing industries. There is an established hardwood based industry in the Northern Rivers and Northern Tablelands regions, which processes small log sizes.

FEA has well developed infrastructure and marketing arrangements for the processing and marketing of the Tasmanian resources under management. FEA has provided information to Adviser Edge that demonstrates its commitment to its northern plantations.

African mahogany
FEA intends to market the African mahogany grown as part of the Project under its recently created Khaya Mahogany brand. These logs will target the high value sawn timber markets, which will use the sawlogs for furniture (Select Grade) and flooring (High Feature). FEA has not entered into any particular marketing strategy for this timber. However, given the long lead time before the plantations mature, FEA can afford to wait before committing to a particular marketing strategy. There are other substantial African mahogany plantations that have been established in the region, with plans for further establishment in the future. This will assist in creating a scale and supply of wood required to justify an investment in processing facilities for this resource in the region.

Wood Purchase Agreement
FEA has entered into a Wood Purchase Agreement for the timber produced under the Project. This agreement requires that the purchase price must be fair and reasonable, taking into account the proposed end-use of the timber and the prices being paid by other purchasers. As RE for the Project, FEA Plantations may choose not to approve the purchase price and deliver to FEA an alternative offer that must exceed the price of the original FEA offer. FEA will then have the option to purchase the timber at the higher price.

The Wood Purchase Agreement also provides a minimum floor price that FEA must pay for the Option 1 and 2 timber, being no less than the average comparative price or the relevant floor price. The average comparative price is defined as the average price paid by major timber purchasers from major plantation timber supplies in the two years preceding the harvest in the region and state where the plantations are located. The relevant floor price is based on a proportion of the FOB price of Australian hardwood plantation woodchips, which is published by FEA's joint venture Bell Bay woodchip export mill.

The minimum floor price mechanism contained in the Wood Purchase Agreement provides some downside protection for the wood purchased under Options 1 and 2. Adviser Edge considers that this downside protection provides adequate compensation for the option received by FEA (namely the first right of refusal). Investors should note, however, that the price protection provided under this agreement is subject to the long-term financial position of FEA. Refer to the Management section of this Report for more information.

The following section provides a discussion of the key project parameters that have a direct impact on the performance of the investment. For a more detailed analysis on these parameters, please refer to the FEA Plantations Project 2009 Supplementary Document available on the Adviser Edge website at www.adviseredge.com.au.

Key Points:

- Pricing data for eucalypt hardwoods and pine softwoods are well supported; however, there is limited data available for plantation grown African mahogany
- Yield will be largely dependent on site selection and management, and is expected to be variable across plantations and regions

Timber Yield

Performance Parameters	FEA Estimates			
	Option 1	Option 2	Option 3	Option 4
Rotation Length	13 years	16 years	15 or 25 years	18 years
Average Mean Annual Increment (MAI)	$27m^3$/ha/year	$27m^3$/ha/year	$22m^3$/ha/year	$11m^3$/ha/year
Timber Yield (per ha)	$355m^{3*}$	$430m^{3*}$	$551m^{3*}$	$198m^{3*}$

Source: FEA, 2008.
* Includes yields generated from thinning harvests.

To improve the size of the final crop stems, FEA will conduct thinning operations at different stages of the rotation. For Option 1 and 2 plantations, FEA has estimated that thinning operations will generate a commercial yield of $95m^3$/ha in FY2019, while for Option 3 plantations, thinning operations have been estimated to generate a commercial yield of $98m^3$/ha and $108m^3$/ha in FY2023 and FY2028 respectively. For the Option 4 plantations, thinning will be undertaken in FY2021, and it is estimated that this will generate a commercial yield of $22.5m^3$/ha.

The average final yield achieved for each investment option will ultimately depend on FEA's ability to select appropriate sites, and the manager's ability to effectively manage the plantations. FEA's identification and acquisition of land is an ongoing process. As such, it is unlikely that FEA will finalise the composition of the Project land until a short time before planting. This makes it difficult to accurately forecast the potential yield performance of each investment. Therefore, it is more relevant to assess the site selection criteria employed by FEA, and the historical performance of each growing region. Investors should take into account the site selection risk, when considering the potential yield achievable in the Project.

As the African mahogany plantation industry is still in its infancy in Australia, it is difficult to make accurate predictions on plantation yield for the species. Some African mahogany plantations in Australia's tropics have shown exceptional yields to-date, but unfortunately these yields are not consistent across a range of sites, and form appears to remain an issue. African mahogany trials show that the species is responsive to certain silvicultural treatments including weed control and fertiliser applications. Weed control, particularly in the early years of establishment, will have a significant bearing on the plantation yield. The yield estimates provided by FEA are lower than estimates adopted by managers of other MIS mahogany projects reviewed by Adviser Edge, and are in the lower range of estimates provided by the independent forester. This indicates an appropriately conservative outlook by FEA.

Adviser Edge considers FEA to be a competent commercial manager of forestry plantations. The yield forecasts adopted by FEA Plantations are considered to be achievable by the independent expert. However, these forecasts will only be achieved if high quality sites are selected, quality management protocols are adhered to, and average rainfall is achieved. Adviser Edge considers it prudent to be even more cautious on yield estimates in the Northern rivers regions for both Option 1 and Option 2 plantations. Given the drought conditions experienced in recent years across many planting regions in Australia, Adviser Edge emphasises the need for conservatism, particularly if dry conditions persist.

While FEA does not have extensive experience in managing softwood plantations, Adviser Edge considers FEA to be competent softwood forestry managers. Adviser Edge has used slightly different assumptions when assessing potential returns for Option 3, although this difference has had negligible impact on overall returns.

Adviser Edge considers it appropriate that FEA has used relatively more conservative yield estimates, compared with other MIS African mahogany projects.

Past performance
FEA has clearfell harvested one previous project to date, being the Tasmanian Forests Trust No. 1 – 1993. This harvest resulted in a total harvest yield of an impressive 404t/ha. The equated average annual growth rate of 27.6 MAI on a recoverable timber basis is 10% higher than initial prospectus forecast.

FEA has also provided Adviser Edge with reports estimating the performance of FEA's plantations for its first nine managed forestry investments (1993 to 2001). The plot measurement models in these reports estimate average MAI results that are meeting or exceeding targets in five of the nine schemes. When contrasted against the corresponding performance of many other MIS forestry project providers, FEA's performance on a project-by-project basis is certainly one of the better track records.

When performance is assessed in terms of total performance of the MIS plantations across the area for the 1993–2001 MIS projects (inclusive), the inventory information provided to Adviser Edge shows that approximately 23% of the total area is on track to achieve or exceed expectations. The data for this period is, however, skewed by the very large area established under the 1999 Project. The following table includes FEA's forecast MAI at 15 years for existing MIS projects.

Forecast MAI for existing FEA MIS projects

Project	Forecast MAI (at 15 years)	Original PDS target	Hectares established
1993	34.9	25	18
1994	29.4	25	158
1995	19.5	25	187
1996	29.1	25	200
1997	26.7	25	364
1998	31.6	25	946
1999	22.2	28	10,623
2000	28.4	28	1,993
2001	19.4	28	1,308
2002	n/a	30	406
2003	n/a	30	2,053
2004	n/a	30	4,374
2005	n/a	28	9,026
2006	n/a	28	10,686
2007	n/a	27	9,196
2008	n/a	27	16,012

As the table indicates, there was considerable variability in the size of project plantings. Most importantly, consideration needs to be given to the impact of the underperforming 1999 project year, which accounts for approximately 67% of the total area established under FEA's 1993–2001 MIS plantation projects. As with all projects, circumstances with respect to an individual years' project contribute to its overall performance. FEA has advised that the 1999 Project was impacted by drought, genetics and issues associated with establishing plantations in new regions. The 2001 project was also impacted by the less than ideal planting times caused by changes in tax legislation subsequent to the Ralph Review. It should be noted that many of these issues have now been addressed by FEA.

Adviser Edge notes that the majority of the project land developed for the 1993–2001 project plantations was established in Tasmania. Growth information for plantations developed in the northern rivers region is only starting to emerge now, yet due to plantation development problems experienced in the region (e.g. spotted gum), Adviser Edge expects there to be sporadic underperformance in isolated areas. Despite this, Adviser Edge is not able to determine whether or not FEA's plantation projects established over the period 2002–2008 are meeting FEA's expectations.

The following table highlights the weighting of the plantations based on reported information, current FEA plantations under management, and the proposed weightings for Options 1 to 3.

Plantations by State

	Tasmania	New South Wales/ Queensland
1993–2001 projects	80%	20%
All FEA plantations*	39%	61%
Proposed Option 1	26%	74%
Proposed Option 2	75%	25%
Proposed Option 3	100%	0%

* Planted as at 21 October 2008.

FEA reports that it is committed to applying secondary fertiliser to the plantations that are lagging in growth where it considers that adequate improvements in growth rates will result. It must be noted that projections based on inventory are a measurement at a point in time and may vary due to seasonal conditions, changes to harvest timing and changes to growth curves, which will impact the final outcome. FEA has implemented procedures that are intended to improve growth rates and land selection and seasonal conditions play an important part in determining final outcomes.

Investors should note that past performance is not necessarily a good indicator of future performance. Individual years' projects are affected by factors that may or may not occur in the future. It should be noted that silvicultural management practices and genetics have advanced since these projects were established. In particular, FEA has significantly improved its site selection and species matching in New South Wales and Queensland region. Nonetheless, while New South Wales and Queensland regions are promising, with potential high growth rates, the comparatively less knowledge with respect to the establishment of eucalypt plantations

in New South Wales and Queensland, and African mahogany plantations in the Northern Territory, is an identified source of risk for the Project.

Sawlog recovery – softwood and hardwood

Sawlog recovery is a function of genetics, site characteristics, and stand management. Sawlog recovery has a significant influence on price, and therefore the investment returns for each investment option. The main factors that influence sawlog recovery include the straightness and size of the log, and the presence of other log defects, including damage caused during transportation and processing. Sawn timber processors are prepared to pay higher prices for straighter logs as they are able to achieve a higher recovery rate on these logs.

Recovery of Sawlog (Hardwood)

Operation	Option 1	Option 2
Thinning	10.5% unpruned	10.5% unpruned
Clearfell	48.0% unpruned	23.9% pruned 40.0% unpruned

Source: FEA, 2008.

Recovery of Sawlog (Option 3 – Softwood)

Operation	Small sawlog	Medium sawlog	Large sawlog	Extra large sawlog
Thinning 1	33%	–	–	–
Thinning 2	20%	32%	11%	–
Clearfell	16%	29%	26%	19%

Source: FEA, 2008.

The sawlog recovery information provided by FEA Plantations for Options 1 to 3 is derived from the independent forester's report written for the Project. The figures adopted for the Project are in line with the figures proposed by peer projects for the thinning and final clearfell harvest operations. The sawlog recovery estimates provided by the independent forester are within the ranges of what Adviser Edge considers to be achievable.

Sawlog recovery rates for African mahogany have not been separately estimated by FEA, but have instead been factored in the budgeted stumpage price. In the independent market report, the expert refers to the recovery from sawing trials conducted on 32-year-old trees, which indicated a gross log volume saw recovery of 24%–29% of flooring grade plus 8%–10% of joinery grade timber. In addition, the independent expert has stated that based on simulated cutting of these 'trial' logs using modern 'Optimil' technology, total green-off-saw recovery of around 50% could potentially be achieved. The independent expert has used an overall average recovery rate of 45% when assessing potential stumpage prices that can be achieved for African mahogany. However the limitations of the available information, it is difficult to accurately calculate estimated sawlog recovery grades for African mahogany.

Pulpwood and sawlog price – hardwood and softwood

The following price estimates were provided by FEA Plantations, and are based on information incorporated in the independent market reports. These values are given in present-day values.

Price Parameters (Hardwood)

Average Stumpage	Options 1	Option 2
Pulpwood ($/m^3) • Thinning	42.00	42.00
Clearfell	45.00	45.00
Sawlog ($/m^3) • Thinning	52.50	52.50
Clearfell	56.25 (unpruned)	56.25 (unpruned) 112.50 (pruned)

Source: FEA, 2008.

Price Parameters (Softwood, Option 3)

Average Stumpage	Thinning ($/m^3)	Clearfell ($/m^3)
Pulpwood	11.00	11.00
Small sawlog	30.00	32.00
Medium sawlog	48.75	50.50
Large sawlog	69.30	70.25
Extra large sawlog	N/A	80.55

Source: FEA, 2008.

Price Parameters (African mahogany, Option 4)

Average Stumpage	$/m^3
Thinning	223
Clearfall	446

Source: FEA, 2008.

FEA proposes that investors will be offered a stumpage price for the harvested timber. The stumpage price is determined from the free on board (FOB) or mill door prices, and converted back by subtracting all the costs of harvesting, chipping (pulp logs only), sawlog or veneer processing, transportation and marketing, and by incorporating any conversion factors (i.e. volume-to-weight, green-to-dry, sawlog recovery rates etc).

Investors in Options 1 and 2 have the benefit of a 'floor price' mechanism, which is outlined in detail in the Wood Purchase Agreement. The floor price is a function of the prevailing FOB price and, therefore, acts as a protection mechanism for investors against future increases in the cost of harvesting, transporting and processing the timber.

Pulpwood (Option 1 and 2)
The expert in the independent market report has determined the stumpage price for pulpwood as being $42/m^3 at thinning and $45/m^3 at final harvest. Higher prices should be expected at final harvest as log sizes and densities are expected to be higher than at thinning. Pulpwood prices are affected by different factors depending on the species, including pulping quality, distance to port, size of plantation and the extraction method used.

Pulplogs harvested from New South Wales and Queensland sites is expected to have transport advantages to Japan. However, the distance to port for these plantations is expected to be further. This will substantially decrease stumpage prices, although FEA has discussed other options for the pulpwood from plantations in these regions. It should be noted that the Wood Purchase Agreement provides a price determination that relies on average comparative prices in each region. FEA is currently investigating potential opportunities to develop potential end-uses for pulplogs grown in the New South Wales and Queensland sites, although the ability of these new end-uses to improve stumpage prices is yet to be determined. As such, irrespective of these developments, prices will continue to be affected by long-distance transportation costs unless there is competition for the timber resource in these regions.

In addition to this, prices for the sub-tropical species of Dunn's white gum, Sydney blue gum and spotted gum is less certain when compared to Tasmanian blue gum and shining gum, due to differing characteristics of each species.

Adviser Edge is satisfied with FEA's budget regarding current pulpwood prices for plantations grown in Tasmania. Adviser Edge has adopted more conservative pricing assumptions for plantations located in the Northern Rivers and Northern Tablelands regions to reflect the more limited markets for pulpwood in New South Wales. Given the long-term nature of the Project, Adviser Edge considers applying a zero real price inflation assumption to be a prudent investment approach.

Hardwood sawlogs (Option 1 and 2)
The stumpage price for unpruned sawlogs has been estimated by the expert in the independent marketing report as being $52.50/m^3 at thinning and $56.25/m^3 at clearfall harvest. This represents a 20% premium on the comparable pulpwood prices, which is consistent with FEA's experience in exporting such logs to Asia for rotary peeling to produce plywood veneers.

The stumpage price for pruned sawlogs has been estimated by the expert to be $112.50/m^3. Higher prices are expected for pruned logs as these logs as these logs are suitable for higher grade uses such as mouldings and furniture grade products. While significant price premiums can be expected, as outlined in the independent marketing report, such premiums are uncertain and difficult to quantify.

Adviser Edge is satisfied that the 20% price premium is a reasonable assumption to use for unpruned hardwood sawlogs. However, the price assumptions for pruned sawlogs are less certain, and are dependent on the quality of the logs grown and the recovery rates achieved. While the prices for pruned logs are certainly achievable, Adviser Edge recommends assessing a wide range of potential prices to account for uncertainty in both the price premium and log quality. Although there is potential for real price increases in the future, Adviser Edge considers applying a zero real price inflation assumption to be prudent.

Softwood (Option 3)
The stumpage price for softwood logs ranges from $11/m^3 for pulpwood to $80.55/m^3 for extra large softwood logs. These prices are based on the prices reported in the Australian Pine Log Price Index.

As stated previously in the Marketing section of this report, the price of all softwood grades has fallen in real terms over the last decade. While it is difficult to forecast future price trends, it is expected that the market outlook will strengthen if the anticipated shortfall in the supply of softwood and hardwood sawlog occurs in key plantation regions. The demand for softwood resources, which is primarily driven by the rate of housing development, is the other primary factor that will dictate prices at harvest. Given the cyclical nature of the housing market, it is expected that the demand for softwood resources will fluctuate over the next 25 years.

The stumpage prices for softwood have fallen in real terms in the past year. Adviser Edge considers the most recent market values to be the most appropriate when calculating the estimated IRR returns range. FEA has assumed that stumpage prices will increase at 2.5% per annum, which is consistent with FEA's inflation expectations.

Methodology to estimate mid-rotation value of plantation
In the PDS, FEA Plantations will offer a buy-back of Option 3 woodlots when the trees are approximately 15 years of age. To determine the potential value of an offer to buy back woodlots, the discounted net present value of the radiate pine plantations needs to be calculated. The net present value of the woodlots will significantly depend on the discount rate used by potential purchasers.

FEA has not provided any discount rates that may apply to the Project. However, having reviewed the rates used by institutional investors, such as Timber Investment Management Organisations, when they purchase mid-rotation plantations, it is expected that investors who accept the offer are likely to achieve lower internal rates of return on their investment. However, these lower rates of return should be considered in the context of the liquidity benefit that the buy-back offer provides.

Adviser Edge believes that the offer to buy back interests for Option 3 investors is beneficial to investors. However, at the time of the offer, investors will need to carefully assess the terms of the buy-back offer to determine whether the offer is reasonable. Adviser Edge recommends that investors should not rely on the buy-back offer when determining the suitability of the investment according to their needs.

African mahogany

The expert in the independent marketing report has estimated the stumpage price for African mahogany to range from $223m^3$ for sawlogs recovered at thinning and $446m^3$ for sawlogs recovered at clearfall harvest. The price achievable for African mahogany is dependent on form, figure, colour and pruning regime. Form is particularly important in determining achievable recovery rates and consequently has a significant bearing on stumpage prices. In reviewing achievable prices, the expert referred to experiences based on sawing trials conducted on 32-year old trees. Applying these experiences to the logs produced as part of the Project is problematic, as the significantly shorter rotation length will affect both recovery rates and colour.

The lack of empirical evidence available for African mahogany makes estimating achievable prices difficult. While Adviser Edge believes that FEA's price estimates are achievable, these prices are still considered to be speculative, and are largely dependent on the form of the trees and pruning regime employed by FEA. However, it should be noted that FEA has applied more conservative assumptions when compared to peer African mahogany projects. Given the outlook for high value timbers, real price appreciation is possible for African mahogany. However, Adviser Edge remains hesitant to incorporate real price movements while empirical evidence of current prices remains uncertain.

For a more detailed analysis of the market for the products to be produced in the Project, please refer to Adviser Edge's Supplementary Document for the FEA Plantations Project 2009.

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 should be aware of the way in which these assumptions may influence their returns, and should seek additional professional advice to determine whether or not this investment is suitable for their own risk and return objectives.

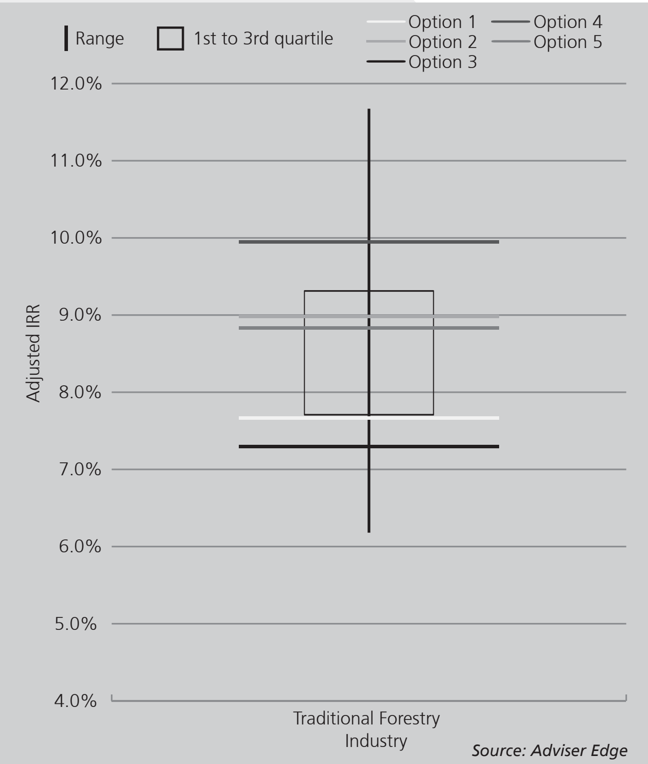
Adviser Edge Potential IRR Range (pre-tax)*

FEA Plantations Project 2009	Pre-Tax	Post-Tax**	Adjusted IRR
Woodlot Option 1	4.69%–10.17%	4.69%–10.17%	7.64%
Woodlot Option 2	5.22%–11.34%	5.22%–11.34%	8.97%
Woodlot Option 3	4.93%–9.15%	4.93%–9.15%	7.29%
Woodlot Option 4	5.76%–14.14%	5.76%–14.14%	9.94%
Woodlot Option 5	5.23%–11.13%	5.23%–111.13%	8.81%

* The range is provided as a guide only and 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 or insurance premiums.

** The analysis assumes a 46.5% marginal tax rate, that investors are registered for GST, and that all GST is rebated in the year paid.

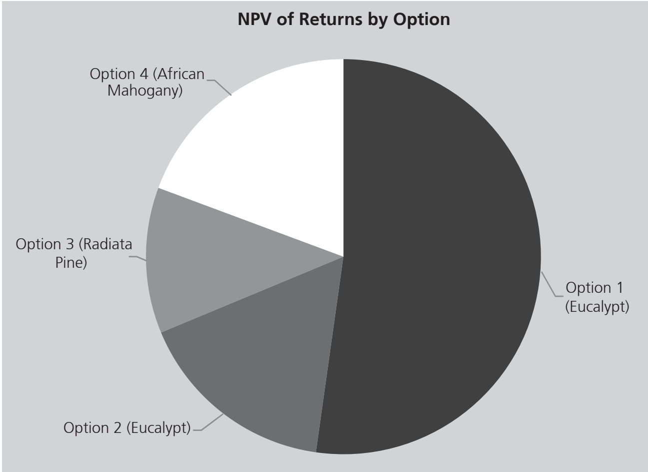
Using a standardised adjustment model, Adviser Edge has calculated the indicative pre-tax adjusted IRR for each Option as indicated in the table above. The following chart benchmarks these adjusted return estimates against other traditional forestry projects researched by Adviser Edge in FY2007.



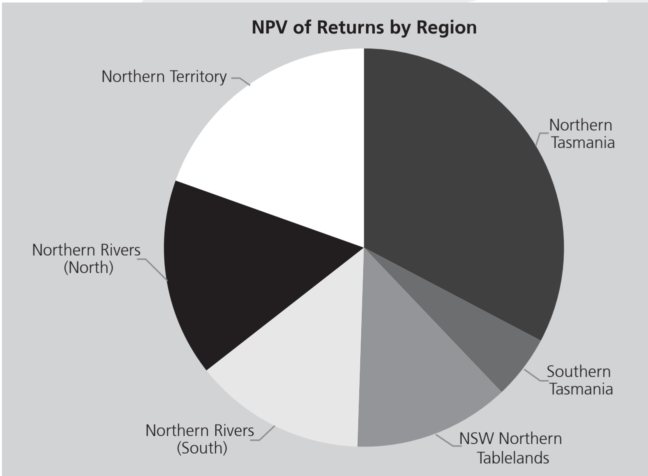
Source: Adviser Edge

When compared to all forestry MIS projects researched by Adviser Edge in FY2007-08, the adjusted IRR estimates for Option 1 lies above the first and third quartile, Options 2 and 5 lies between the first and third quartile, while Options 1 and 3 are only slightly below the third quartile. Investors should note that each Project Option has a distinct risk and return profile, hence investment decision-making should not be based purely on the adjusted IRR calculated by Adviser Edge.

Option 5 diversification



Option 5 is considered to have excellent diversification by species. The net present value of the forecast Project returns for Option 5 are weighted towards the Eucalypt component, with almost 70% of the returns expected to be generated for this species. A lower weighting of returns is expected to be generated from the higher returning but riskier African mahogany species, which is considered prudent.



Option 5 is considered to have good geographic diversification across regions, with a majority of plantations being allocated to the relatively lower risk regions of Tasmania and the New South Wales Northern Tablelands region.

Investment analysis performance assumptions

The estimated project returns provided by Adviser Edge have been calculated using various performance assumptions. The key assumptions adopted by Adviser Edge are presented in the following table. These assumptions have been determined from information provided in the PDS, directly by FEA, from the independent foresters report, and independent research performed by Adviser Edge. The following table also includes the performance assumptions adopted by FEA, as discussed in the Performance Parameters section of this report.

Performance Assumptions	Adviser Edge	FEA
Hardwood Yield (Option 1)		
• Thinning	86m^3/ha	95m^3/ha
• Clearfell	242m^3/ha	260m^3/ha
Hardwood Yield (Option 2)		
• Thinning	92m^3/ha	95m^3/ha
• Clearfell	326m^3/ha	335m^3/ha
Softwood Yield (Option 3)		
• First thinning	88m^3/ha	98m^3/ha
• Second thinning and clearfell	440m^3/ha	453m^3/ha
African mahogany Yield (Option 4)		
• Thinning	22.5m^3/ha	22.5m^3/ha
• Clearfell	175.5m^3/ha	175.5m^3/ha
Average hardwood stumpage price (Option 1)		
• Thinning	\$39.47/m^3	\$43.11/m^3
• Clearfell	\$45.30/m^3	\$50.41/m^3
Average hardwood stumpage price (Option 2)		
• Thinning	\$42.17/m^3	\$43.11/m^3
• Clearfell	\$69.83/m^3	\$72.07/m^3
Average softwood stumpage price (Option 3)		
• First thinning	\$15.44/m^3	\$17.20/m^3
• Second thinning	\$36.49/m^3	\$34.96/m^3
• Clearfell	\$50.39/m^3	\$53.52/m^3
Average African mahogany stumpage price (Option 4)		
• Thinning	\$223/m^3	\$223/m^3
• Clearfell	\$446/m^3	\$446/m^3
Stumpage Price Inflation	2.9%	2.5%
Cost Inflation	2.9%	2.5%

Hardwood

FEA has over 20 years of experience, skills and expertise in successfully managing Eucalypt hardwood plantations. Adviser Edge has adopted FEA's yield estimates for eucalypt hardwood trees in Tasmania for cash flow modelling purposes. However, Adviser Edge has adopted more conservative yield estimates in relation to eucalypt hardwood plantations in the Northern Rivers region, to reflect the challenges associated with ascertaining site suitability for the species intended to be planted. Lower MAI estimates have been used in these regions to reflect the risks associated with the intended plantation species.

Adviser Edge is satisfied that FEA has the skills and expertise to establish and manage eucalypt hardwood plantations. However, slightly more conservative assumptions have been used for the Northern Rivers region, due to the challenge of determining and obtaining appropriate sites and the issues associated with the individual species, although Adviser edge notes FEA has made significant advances in recent years. Adviser Edge is comparatively more comfortable with FEA's ability to achieve yield targets in Tasmania and the New South Wales Northern Tablelands region, with FEA having a long track record of establishing quality plantations in Tasmania.

Adviser Edge has adopted FEA's estimates in relation to stumpage prices for eucalypt hardwood trees in the Tasmanian region. Adviser Edge has used more conservative prices for hardwood plantations in the Northern Rivers region to account for a potentially lower yield and a lower value product, in addition to the higher harvest and transport costs associated with these plantations when compared to plantations grown on Tasmanian sites. Adviser Edge's stumpage prices for pulpwood grown in the Armidale and Walcha regions (Northern Tablelands) have also been more conservative due to transportation distances. While FEA has provided information regarding the development of proposed processing facilities intended to be established close to the plantations and the development of alternative markets, FEA has entered into a Wood Purchase Agreement to purchase the timber at harvest and pay the prevailing stumpage prices. These will be affected by expected harvest and transport costs to the nearest alternative purchaser. In addition, Adviser Edge has reviewed a wide range of prices for clearfall harvests in both Option 1 and Option 2 to reflect the potential variation in sawlog recovery rates.

Under the Wood Purchase Agreement, investors in Options 1 and 2 have some downside protection through a minimum price mechanism. The minimum price under the agreement must be the greater of the average comparative price paid by purchasers of timber in the previous two years in the respective regions, or the bone dry metric tonne woodchip price published by the

SmartFibre joint venture, multiplied by a fixed factor. This mechanism, while not providing an absolute floor price, reduces the investor's exposure to changes in stumpage rates as a result of increased harvesting, transportation and processing costs through the SmartFibre pricing mechanism. Based on a 48% wood fibre content and $198.50 BDMT assumption, the minimum prices that must be paid under the Wood Purchase Agreement are outlined in the following table.

Minimum Price under the Wood Purchase Agreement*	
Category	$/t
Pulpwood at thinning	$33.35
Pulpwood at clearfall	$37.16
Unpruned sawlogs at thinning	$40.02
Unpruned sawlogs at clearfall	$44.59
Pruned sawlogs at clearfall	$74.32

* Assumes 48% wood fibre content and $198.50 BDMT woodchip price.

Adviser Edge has reviewed FEA's assumed prices and recovery rates and considers them to be achievable. However, greater conservatism has been applied to stumpage prices for plantations in the northern New South Wales and south-east Queensland regions to reflect the potential lower recovery rates and higher harvest and transport costs.

Softwood

FEA has budgeted an average MAI of 22m^3/ha/year, which is within the achievable yields estimated by Adviser Edge for softwood in the region provided. However, these yields will only be possible if high quality sites are selected, quality management protocols are adhered to and average rainfall is experienced throughout the rotation. Adviser Edge has taken a slightly more conservative approach in assessing potential returns. Adviser Edge has also adopted slightly lower yield estimates for cash flow modelling purposes, recognising the risks associated with site selection and operational management for softwood plantations.

FEA's assumptions in relation to yields are only slightly above Adviser Edge's expectations for softwood plantations in the proposed regions. Adviser Edge considers these assumptions to be reasonable.

Adviser Edge has taken a slightly more conservative approach to softwood prices when compared to the industry expert. While the prices budgeted by the expert are considered achievable, Adviser Edge has used slightly lower price assumptions for the first thinning and the clearfall harvest. While Adviser Edge has used slightly higher recovery rates for higher grade logs than budgeted by FEA, the weighted stumpage price has been adjusted down slightly to reflect a degree of conservatism in relation to the prices achievable for the small to medium sawlogs.

FEA's price assumptions are broadly in line with Adviser Edge's range of potential prices. While using no real price inflation when assessing the potential returns, the long-term outlook for the supply and demand of softwood in Australia is positive which may provide upward pressure on prices over the long-term.

Under the PDS, FEA will offer to buy woodlots from investors in Option 3 when the trees are around 15 years of age. The price paid for the woodlots will depend on the actual growth rates of the woodlots, any changes in stumpage prices paid for softwood, and the discount rate applied to anticipated harvest proceeds.

Adviser Edge has not calculated a return based on the sale of standing timber, although a slightly lower internal rate of return is expected due to the range of applicable discount rates. This lower return needs to be balanced with the benefit of improved liquidity.

African mahogany

There is little information available to forecast the yield capable of being achieved for plantation grown African mahogany in Australia. The plantations established, and continue to be managed, by a previous manager and inspected by Adviser Edge have shown some promise in terms of overall growth. However, these stands have been characterised by poor stem form, which would lead to lower recovery rates. While improved genetic selection and silvicultural management has the potential to significantly improve the achievements to date, there remains uncertainty as to the potential yield for these species.

Adviser Edge has used the yield figures supplied by FEA in the investment analysis. The yield figures used is within the range considered by the independent expert as being possible. To reflect the uncertainty in stem form and growth, Adviser Edge has used a relatively large variation in yield to determine the IRR range.

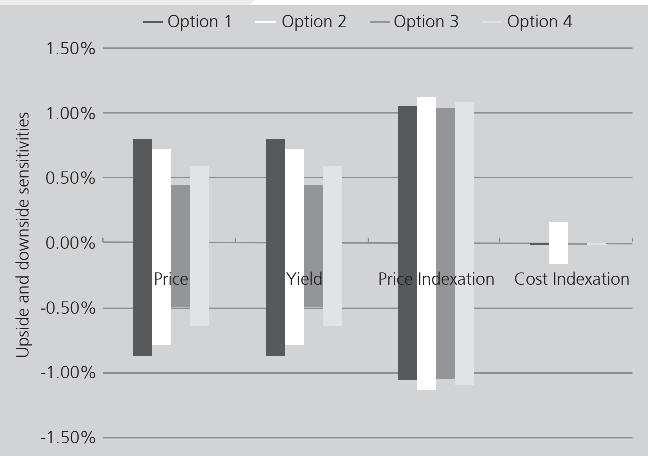
Given the increasing global demand for high value timbers and the declining availability of supply, it is expected that prices for high value timbers such as African mahogany will remain strong. The independent expert has estimated the residual stumpage price based on retail/wholesale prices of approximately $4,000/m^3 for kiln-dried timber obtained from 32-year old trees. The independent expert has assumed the average wholesale price for seasoned, dressed timber to be approximately $3,000/m^3. Prices for thinnings are estimated to be lower, as it is expected that the younger timber will not have the same intensity of colour as clearfell timber.

Adviser Edge has reviewed the stumpage calculations provided by FEA and has adopted these assumptions for modelling purposes. However, there remains uncertainty on the recovery rates and wood properties from plantation African mahogany at 18 years of age. While there is potential for real-price appreciation, Adviser Edge has assumed no real price inflation due to the limited market price information available.

Sensitivities

The table below illustrates the sensitivity of investment returns (IRR) given an isolated change in key modelling factors. For the purpose of this analysis, Adviser Edge has considered the sensitivity of returns to isolated changes in yield, and in price and cost indexation parameters. Yield sensitivity reflects a movement of 10% around the Adviser Edge performance assumption, while price and cost index sensitivities reflect the impact of a 100 basis-point (1.0%) movement in the price and cost inflation rates estimated by Adviser Edge.

IRR Sensitivity (based on pre-tax returns)

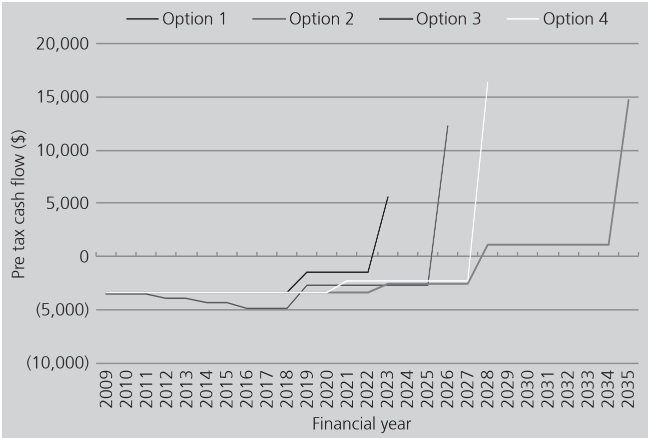


The analysis illustrates that the potential IRR of this investment is most sensitive to variation in price indexation. Option 3 has the lowest level of sensitivity, as it has the longest term. This reduces the impact of changes in price and yield assumptions on overall potential IRR. As it is assumed that for each Option the pulpwood and sawlogs will be sold on a stumpage basis, the variation in the rate of cost inflation has minimal impact on Project returns. In reality, increased harvesting, haulage and processing costs will be reflected in lower stumpage prices.

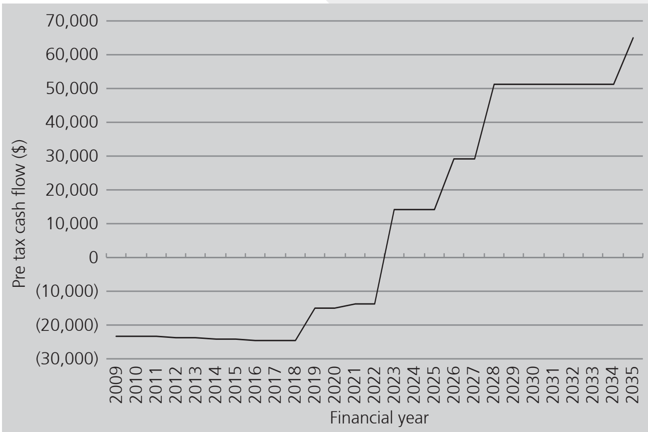
Pre-Tax Cash Flow per Unit

The FEA Plantations Project 2009 provides investors an opportunity to invest in four different plantation regimes and species, which provide cash flows over different time periods. An indicative cumulative pre-tax cash flow for each of the Options is presented in the following charts. These cash flows have been calculated using the performance assumptions adopted by Adviser Edge.

Cumulative pre-tax cash flow per unit (Options 1 to 4)



Cumulative pre-tax cash flow per unit (Option 5)



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. It is likely however, 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 post-tax performance of the Project.

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

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