FEA Plantations Project 2009

Lonsec Agribusiness Research

May 2009

LONSEC

FEA Plantations Project 2009 – All Options

LONSEC Recommended

About this Project:	Option 1	Option 2	Option 3	Option 4	Option 5
Location	Tasmania & NSW	Tasmania & NSW	Tasmania	Northern Territory	Tasmania , NSW, & NT
Product	Unpruned *Eucalyptus* sawlogs & pulp logs	Pruned & unpruned *Eucalyptus* sawlogs & pulp logs	Unpruned *Pinus radiata* sawlogs & pulp logs	African mahogany *Khaya senegalensis*	4 woodlots-Option 1 1 woodlot -Option 2 1 woodlot- Option 3 1 woodlot-Option 4
Target Project Size	12,400ha	1,600ha	1,000ha	1,000 ha	1,000 units
Woodlot size	0.5ha	0.5ha	0.5ha	0.2ha	3.2ha
Target Raising (millions)	$85.6	$11.0	$6.9	$17.3	$23
Life of investment	14 years	17 years	16 or 26 yrs**	19 years	19* or 26 years
Establishment Fee	$3,450	$3,450	$3,450	$3,450	$23,000
Finance Available	Yes	Yes	Yes	Yes	Yes
Commissions & rebates (% of application fee)	Up to 10%	Up to 10%	Up to 10%	Up to 10%	Up to 10%
Product Rulings	**PR 2009/23**	**PR 2009/24**	**PR 2009/25**	**PR 2009/26**	**PR 2009/27**
Offer close d	30 June 2009	30 June 2009	30 June 2009	30 June 2009	30 June 2009
Risk and Return					
Level of Risk	**Moderate**	**Moderate**	**Low to Moderate**	**Moderate to High**	**Moderate**
Lonsec IRR (after tax):					
Mid case	**8.4%**	**9.5%**	**7.3%**	**10.3%***	**9.1%**
Indicative range of outcomes	7.1% to 9.2%	8.3 to 10.2%	6.0% - 7.8%	8.2% - 12.2%	8.1% to 10.1%
Zero IRR scenarios					
IRR = 0% if price falls by	na*	na*	82%	84 %	n/a
IRR = 0% if yield falls by	65%	73%	82%	84%	75%
IRR = 0% if both yield and price fall by	57%	64%	57%	59%	60%
Robustness	High	High	High	Average	High
Years to positive cumulative cashflow	14	17	19	19	14

- The Floor Price mechanism prevents a 0% IRR being reached through downside price movements alone

** Investors may opt to participate in 'Buy Back' option or invest over the full rotational term (Option 3)

* Calculated excluding the premium for optional woodlot insurance (Option 4)

The Project Plan

Options 1&2

➢ Investors in **Option 1** participate in growing *Eucalyptus* trees for the production of unpruned sawlogs and pulp logs, over a 14 year term, to be processed into construction timber and pulpwood products.

➢ Investors in **Option 2** participate in growing *Eucalyptus* trees for the production of both pruned and unpruned sawlogs and pulp logs, over a 17 year term, to be processed into clearwood, construction timber and pulpwood products.

➢ Entry into either Option 1 or Option 2 is via an upfront Establishment Fee of $3,450 per woodlot. Investors in Option 1 pay no ongoing fees. Investors in Option 2 are required to pay pruning fees in years 4, 6 and 8. Management and Land Sourcing fees are deferred until harvest and are paid as a proportion of net Harvest Proceeds (after deducting harvesting costs).

➢ FEA Plantations will establish, manage, harvest and market the timber produced in either Option 1 or Option 2 on behalf of Investors.

Option 3

➢ Investors in **Option 3** participate in growing *Pinus radius* trees for the production of unpruned sawlogs and pulplogs to be processed into sawn timber and pulpwood.

➢ Investors have the option of participating in a 'Buy back' scheme in year 16 of the Option 3 Project or participate in the investment over the full Project term of 26 years.

➢ Entry into the Option 3 Project is via an upfront Application fee of $3,450 per woodlot. Investors pay no ongoing fees. Management and Land Sourcing fees are deferred until harvest and are paid as 3% and 12% of net harvest proceeds, respectively.

- FEA Plantations will establish, manage, harvest and market the timber and timber products produced in the Option 3 Project on behalf of Investors.
- Proceeds from thinning operations are expected in years 14 and 19 of the Option 3 Project, with the clearfall harvest expected in year 26.

Option 4

- Investors in **Option 4** participate in a 19-year project in the Northern Territory of Australia, growing African mahogany for the production of hardwood sawn timber for use in the furniture and building industries.
- Entry into the Project is via an upfront payment of $3,450 (exc GST) per woodlot on application.
- Investors pay no ongoing fees. These fees are deferred and paid from net harvest proceeds (after deducting harvesting costs) at the times of harvest and include management and land sourcing fees.
- Two commercial harvests are planned over the life of the Project, with positive cashflow in years 11 and 19.
- Optional woodlot insurance is available for electing investors.

Option 5

- **Option 5** of the FEA Plantations Project 2009 offers Investors the opportunity to participate in a geographically and sector diversified forestry Project.
- One investment unit in this Project is comprised of four Option 1 woodlots and one woodlot in each of the Option 2, 3 and 4 Projects of the FEA Plantations Project 2009, equating to a total of 7 woodlots of 3.2ha in area.
- Investors participate in growing: *Eucalyptus* trees to produce pulp logs and pruned and unpruned sawlogs; *Pinus radiata* trees for production of pulp logs and unpruned sawlogs; and African mahogany for the production of high value pruned sawlogs.
- Entry into the Project is via an upfront Establishment Fee of $23,000 per unit. This fee is discounted approximately 5% on the fee payable should the relevant woodlots be acquired individually. With the exception of pruning fees for the Option 2 woodlot, Investors pay no ongoing fees. Management and Land Sourcing fees are deferred until harvest and are paid as a proportion of net harvest proceeds (after deducting harvesting costs).

Key Project Drivers

- The FEA Group is a vertically integrated forest and forest products group of companies which has offered 17 consecutive hardwood and softwood MIS projects since 1993, raising a total of $393.6m in funds. FEA will provide substantial corporate and operational management expertise and resources to Investors in these Projects.
- Investors in both **Options 1 & 2** gain some downside protection to falling timber prices through the 'Floor Price' mechanism under a Wood Purchase Agreement with FEA which is activated should product prices fall below the defined threshold.
- Plantations grown in **Options 1 & 2** will be spread across production regions. This reduces the risk of any one yield limiting event affecting the entire plantation and therefore reduces the impact of such an event on financial returns of the Projects.
- Investors in **Option 3** may participate in value-adding operations via downstream timber processing facilities owned and managed by FEA. Timber harvested in the Projects is likely to be marketed under FEA's established BassPine and SmartFibre brands.
- **Option 4** provides potential for reasonable returns as a result of strong prices for the high value product, and the interaction with the project fee structure. With fees, as a percentage of net harvest proceeds (and deferred until harvest), investors will be subject to less downside risk in financial returns.
- Globally there is strong supply and demand dynamics for tropical plantation grown timber, as native log supplies continue to be restricted. Driven by the international timber market, where supply bans on logging and the importation of native timbers is gaining pace, it is expected that market condition for plantation grown African mahogany will remain strong.
- The **Option 5** blended Project provides strong agronomic, geographic and market diversification benefits to Investors. This reduces the risk of any one production or market risk significantly impacting the financial returns of the Project.
- Timber produced in this Project will potentially be value-added via downstream timber processing facilities owned and managed by FEA. Timber harvested in these Projects is likely to be marketed under one of FEA's range of branded timber products, which may attract a price premium.

Key Project Risks

All Options

- Market demand for timber products produced in the Projects may be lower than expected which will adversely influence price potential
- Timber prices obtained may be lower than those forecast, which may reduce revenue from a Project
- Timber quality, either for sawing or for woodchips, may be lower than expected

Options 1&2

- Trees may be destroyed, damaged or suppressed due to sub-optimal control of weeds, pest or disease, particularly in northern NSW where these issues are particularly prevalent
- As yield assumptions in northern NSW are not supported by actual data from mature plantations, growth rates may be lower than expected, which will result in lower timber volume

Option 3

- Trees may be destroyed or damaged by fire which may reduce timber yield and/or quality
- Trees may be destroyed, damaged or suppressed by drought conditions, which may reduce tree growth rates and timber yield

Option 4

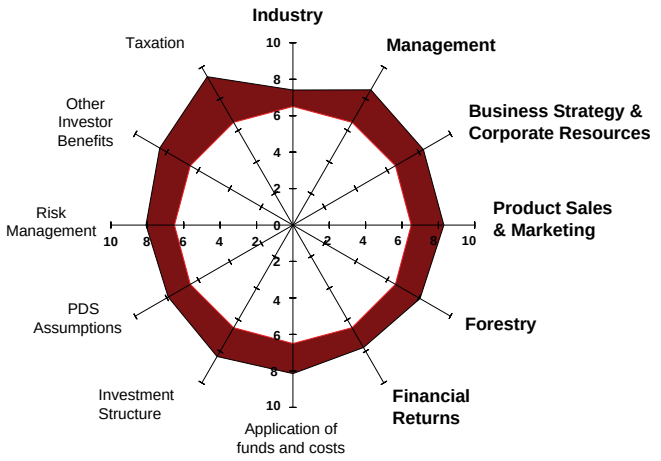
- Reduced timber quality, due to clonal abnormalities and heartwood development, could reduce the value of timber.
- Growth rates may be lower than expected,
- Storm damage could cause a significant reduction in project revenues, as a result of reduced utilisable timber, or tree death, caused by storms.
- Loss of key staff or failure to recruit suitably skilled staff and contractors could have a detrimental effect on the performance of the plantation.
- African mahogany prices may be lower than expected due to market influences or the grade of product produced. This has the potential to depress distributions to investors.

Option 5

- As with all long-term forestry ventures, the Project is exposed to agricultural and economic risks such as pest and disease, wind/cyclones damage, malnutrition, inappropriate management and market failure.
- Each investment unit of **Option 5** of the FEA Plantations Project 2009 produces pulpwood, pruned and unpruned sawlogs and African mahogany from plantations spread across a number of regions. Therefore, the risk of any one event (e.g. wind, fire, pest damage) significantly affecting the returns of the Project is reduced.
- In categorising the Project's level of risk, Lonsec has made a qualitative risk assessment of each of the Project's components, considered their respective contribution to Project returns and the overall diversification benefits of the Project. Subsequently, Lonsec has rated the Project in the 'Moderate' risk category.

Lonsec Ratings – Critical Determinants

Option 1:



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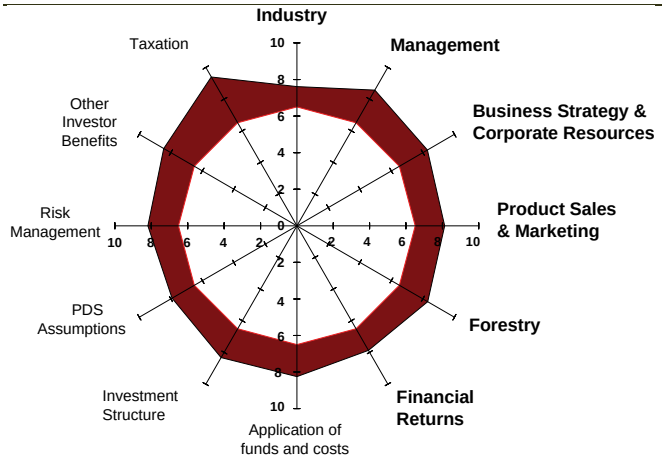

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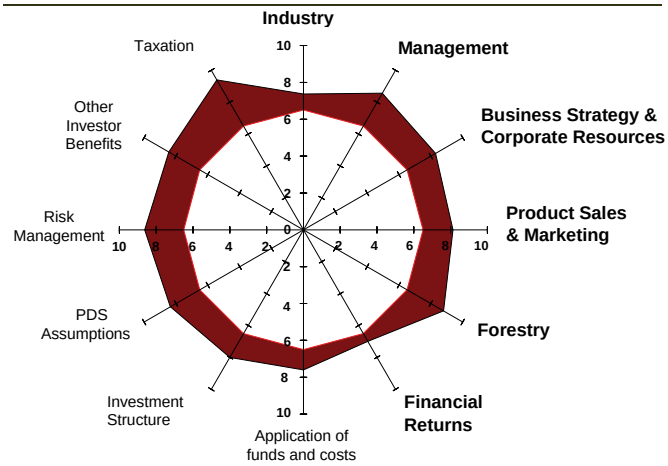
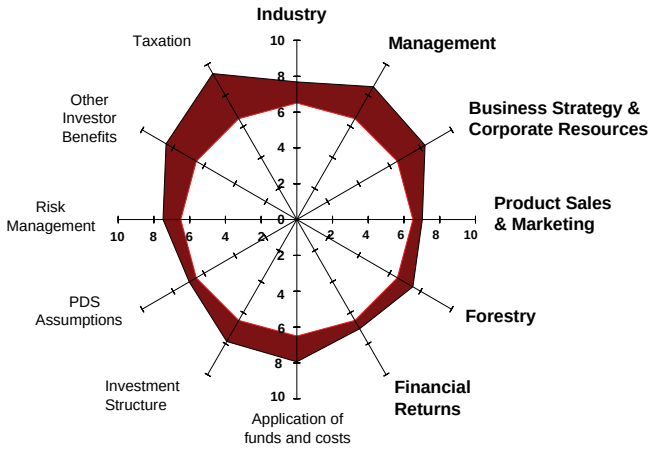
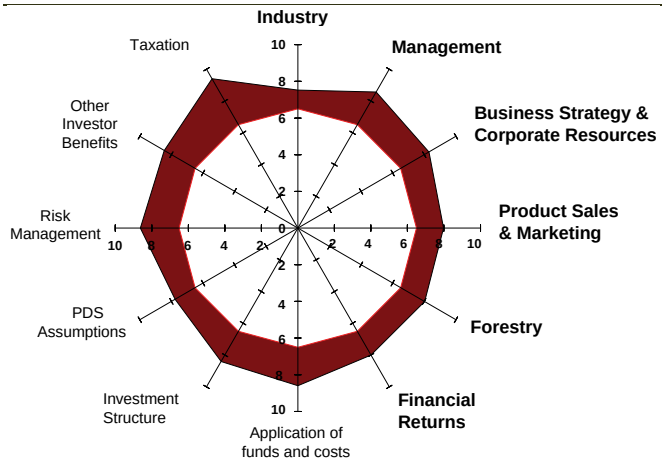


Option 4



Option 5



- The shaded area represents the amount by which the investment ratings exceed minimum approval score of 6.5.

Triggers for Review

After the Research Report has been completed, Lonsec has asked to be notified of any significant changes, including supplementary offer documents, that materially or may materially affect the basis of our recommendation. This will allow Lonsec to reassess the recommendation.

FEA Plantations Project 2009 – Option 1	Recommended
FEA Plantations Project 2009 – Option 2	Recommended
FEA Plantations Project 2009 – Option 3	Recommended
FEA Plantations Project 2009 – Option 4	Recommended
FEA Plantations Project 2009 – Option 5	Recommended

What the ratings means

The **Recommended** rating indicates that the project is considered to be a worthy substitute for Highly Recommended products, given the manager is still considered to be well positioned overall to deliver stated objectives over the project term. A Highly Recommended rating has not been assigned due to one or more factors that are likely to impact the projects overall outcome.

Table of Contents

Lonsec Scope and Approach

Lonsec Research (Lonsec), a division of Lonsec Ltd, has prepared this report for the Directors of FEA Plantations Limited (FEA Plantations).

Scope

The research process has included, but is not restricted to, the Lonsec Ratings Process using over 100 areas of assessment to rate the 12 critical determinants of an agribusiness investment. Lonsec has not engaged a solicitor to review the Project agreements, legal structure and FEA Plantations due diligence process. Where applicable, Lonsec has commented on issues arising from a limited review of specific agreements, as noted in the report.

Lonsec has not engaged a taxation specialist to provide advice on the implications of the Product Ruling and proposed deductibility of the Application Fees to Investors.

Taxpayers who are considering participating in the Project are advised to confirm with their taxation advisors that changes in the law have not affected the Project's Product Ruling since it was issued.

A Product Ruling generally states that if the proposed arrangement is materially different from the arrangement that is actually carried out, the Ruling has no binding effect and will subsequently be withdrawn or modified.

Approach

Lonsec has rated the Project in accordance with the standard Lonsec rating methodology. Projects are assessed against a scale of 1-100, which is translated into the following descriptive ratings:

- "Highly Recommended" (85 to 100)
- "Recommended" (75 to 84.9)
- "Investment Grade" (65 to 74.9)
- "Not Approved" (less than 65)

A Project must rate greater than 65 in each of the six Major Determinants - Industry, Management, Corporate Resources, Product Sales and Marketing, Forestry and Financial Returns in order to pass as a whole, regardless of the total aggregate rating.

Sources of Information

This report has been prepared by Lonsec Agribusiness Research (Lonsec) for the Directors of FEA Plantations. Lonsec has relied on information requested from FEA Plantations in relation to the FEA Plantations Project 2009 – Options 1 & 2 (ARSN 136 438 616) 7 May 2009, and information obtained from discussions with Project directors, management and key employees and information obtained from discussions with project management.

Lonsec has engaged Roger Underwood (York Gum Services, WA) as the Lonsec Consultant Forester (LCF) to undertake a Forestry Review of the Project, and has relied upon the information supplied therein. The Lonsec Consultant Forester conducted field inspections of the proposed sites for this project in October and November 2008. Lonsec has utilised information from the following sources in the course of preparing this report.

Material Agreements

- Wood Purchase Agreement (FEA Plantations, FEA)
- Constitution (FEA Plantations)
- Custody Agreement (FEA Plantations and FEA)
- Compliance Plan (FEA Plantations)
- Head Management Agreement (FEA Plantations and FEA)
- Forestry Right Deed (Landowner, FEA Plantations and FEA)

License, Product Ruling and Approvals

- Australian Financial Services Licence No. 243515 held by FEA Plantations.
- Product Rulings: Option 1: PR 2009/23; Option 2: PR 2009/24; Option 3: PR 2009/25; Option 4: PR 2009/26; Option 5: PR 2009/27

Supporting Documents

- FEA and FEA PLANTATIONS biographies and qualifications of senior staff
- FEA Annual Reports, 2003, 2004, 2005, 2006, 2007 & 2008
- Manager's Reports to Investors, 2005, 2006, 2007 & 2008
- FEA Environmental Management System Manual
- FEA Forest Safety Management System
- AS/NZS ISO14001:2004 Environmental Management System Certificate of Approval
- FEA Plantations Project 2009 Financial models (Investor and Manager)

SWOT Analysis Options 1&2

Strengths	Weaknesses
➢FEA is a well-established hardwood plantation manager with significant downstream processing facilities. FEA sells plantation timber in the form of woodchips, sawlogs, peeler logs and sawn boards. ➢FEA has developed export wood fibre markets through SmartFibre Pty Ltd in Japan and China, as well as domestic sawn timber markets. As agents for the sale of Investor's timber, FEA Plantations will enter into a Wood Purchase Agreement with FEA for the term of the project. ➢Mid-range entry costs and deferred fee structures provide FEA Plantations with an incentive to maximise project performance. ➢A floor price mechanism provides a level of downside protection to Investor returns should market stumpage prices (the price of which Investors will receive) fall significantly relative to the FOB woodchip price (from which the floor price is derived).	➢The Wood Purchase Agreement does not nominate specific volumes and prices. The timber will be sold as logs, effectively at the prevailing market price, having regard for the species, the location and the quality of the timber. ➢Drought and flood losses are not covered by optional insurance. However, these risks are mitigated to the extent that the strict land selection procedures are implemented and by the provision of minimum stocking rate guarantees. ➢The Independent Market Report concludes that the stumpage price assumptions are reasonable in the current market. However, access to Australian price data for plantation hardwood sawlog products is limited. ➢The floor price mechanism is established as a proportion of a variable market price and not a fixed floor price. ➢Approximately 74% of Option 1 woodlots are expected to be established in northern NSW. The production potential of *Eucalyptus* species in this region is still largely unknown, therefore, actual yields may be lower than expected. However, FEA Plantations has informed Lonsec that it has recently secured highly productive forestry land which is undergoing clearfall harvest. This land is expected to be used for plantations to be established in this Project. Whilst Lonsec has not inspected inventory data, yields are believed to be encouraging.
Opportunities	**Threats**
➢Strong worldwide demand for high quality plantation hardwood pulp including Chinese and South American pulp processors. ➢As FEA grows its forest resource and processing facilities, it will become a stronger player vis-à-vis the Asian woodchip and timber buyers which may increase FEA's bargaining position. ➢FEA has completed a significant mill expansion to install large log sawing capacity, kilns, drying sheds and moulding/planing infrastructure. These facilities are expected to significantly increase the margins on the timber produced in this Project.	➢Increasing production from competing countries could place downward pressure on international pricing of timber products produced in this Project. ➢With increasing national public awareness of environmental issues, the regulation and certification of environmental management has been subject to increasing public scrutiny and compliance costs. ➢A general downturn in economic conditions in key markets may result in reduced demand for timber based products. ➢Improvements in paper recycling technology and increased recovery rates of recycled paper fibre may impact supply dynamics.

SWOT Analysis Option 3

Strengths

- FEA specialises in the forest and forest products sectors and has grown to become one of Australia's largest and most experienced plantation managers.
- Through the company's branded timber product range, FEA has developed significant market presence with international and domestic wood fibre buyers.
- The Project structure, whereby the Manager receives a proportion of harvest proceeds, provides a strong incentive for the Manger to maximise Project performance.
- Investors in the Project have the opportunity to divest their interests in the Project at approximately year 16 through a buy-back offer or hold their interests over the full rotation.
- Silvicultural, harvesting and processing techniques for *Pinus radiata* are well refined which reduces some of the production risks associated with Project.

Weaknesses

- The Wood Purchase Agreement does not nominate specific volumes and prices. The timber will be sold as logs, effectively at the prevailing market stumpage price, having regard for the species, the location, quality and end use of the timber.
- Drought losses are not covered by the optional insurance. However, this risks are mitigated to the extent that the strict land selection procedures are implemented and by the provision of minimum stocking rate guarantees.
- Lack of geographic diversification raises the overall risk level of the Project as one significant outbreak of disease or natural disaster event, such as storm or fire, could have a major impact on pooled Project returns.

Opportunities

- By the time timber in this Project is harvested, FEA may have a well established market network and brand recognition and may attract a price premium for its products.
- As environmental and sustainability issues continue to intensify, certified plantation produced timber may attract price premiums and have greater market access relative to native products.
- Demand for high quality softwood woodchips for pulp production may increase in a growing Asian economy.

Threats

- Rising fuel prices may erode some of Australia's cost competitive position for fibre exports to key Asian markets, particularly relative to expanding South East Asian timber resources.
- Increasing global production of plantation timber could place downward pressure on international pricing.
- A general downturn in economic conditions in key markets may result in reduced demand for timber based products.
- Improvements in paper recycling technology and increased recovery rates of recycled paper fibre may impact demand dynamics.

SWOT Analysis Option 4

Strengths	Weaknesses
➢FEA is a well-established hardwood plantation manager with significant downstream processing facilities. FEA sells plantation timber in the form of woodchips, sawlogs, peeler logs or sawn boards. ➢FEA has developed export wood fibre markets in Japan and China, as well as domestic sawn timber markets. As agents for the sale of investor timber, FEA Plantations has enter into a Wood Purchase Agreement with FEA for the term of the project. ➢A mid-range entry cost, approximately $5,000/ha below the database average for projects within the tropical forestry sector, and a deferred fee structure, provides investors with the potential for strong returns and FEA Plantations with an incentive to maximise project performance.	➢The Wood Purchase Agreement does not nominate specific volumes and prices. ➢FEA has not managed plantations in the Northern Territory before, and whilst the key manager has experience with this species, the company must be aware of the significantly higher level of risk associated with these projects. In respect to this, the Lonsec Consultant Forester has expressed the view that FEA will need to employ additional staff to assist in managing the estate once the project is established. This is especially important given that there is usually only a small window of time available to attend to issues when managing tropical timber plantations (See Section 6 and 7 of this report). ➢The lack of genetically improved African mahogany seed could compromise the success of the plantation if clonal abnormalities become apparent. (see section 6 of this report).
Opportunities	**Threats**
➢High quality hardwood products are in high demand and attract premium pricing, whilst restrictions on access to native forest resources are limiting supply. ➢FEA's focus on vertically integrating into timber supply chains will help generate strong returns for investors' timber. ➢FEA may have the opportunity to participate in joint ventures with other African mahogany managers to conduct R&D projects. ➢Limited potential exists for secondary trading of woodlots once the units have been held by the initial investor for a period of at least four years (see section 1.1). Whilst the secondary market is currently relatively illiquid, Lonsec believes that greater liquidity may be generated through demand from fund managers, wanting to purchase MIS units (closer to maturity) for inclusion into a Fund.	➢Increasing production from maturing plantation resources worldwide could place some downward pressure on international pricing within the Project term, depending on timber demand trends. ➢A general downturn in Asian economic conditions resulting in reduced demand for timber based products. ➢Outbreak of disease at either plantation could significant impact the performance of the project. ➢The reliance on native seed could result in reduced harvest revenues because of abnormal tree growth. ➢FEA have identified that it is in the process of securing additional land for inclusion into the project, identifying that approximately 50% of the project may be planted on land located near Katherine, NT. FEA reports that this land, at the time of writing, has not been fully secured, and as a result Lonsec is unable to make an assessment of the suitability of the site for growing African mahogany. Despite this, Lonsec is confident that FEA's well structured land selection protocols will help ensure that only suitable land is chosen for inclusion into the project.

SWOT Analysis Option 5

Strengths

- FEA is a well-established hardwood and softwood plantation manager with significant downstream processing facilities. FEA sells plantation timber in the form of woodchips, sawlogs, peeler logs and sawn boards into domestic and international markets.
- There is a floor price mechanism for timber produced in Option 1 and 2 woodlots which provides a level of downside protection to Investor returns should market stumpage prices (the price of which Investors will receive) fall significantly relative to the FOB woodchip price (from which the floor price is derived). It also has the effect of reducing the sensitivity of Project returns to downside price movements.
- The Project gives strong agronomic, geographic and market diversification benefits to Investors.
- The Project's Establishment Fee is discounted approximately 5% on the fee payable should the relevant woodlots were acquired individually. Land Sourcing and Management Fees are a proportion of harvest revenue which not only provides an incentive for the manager to maximise Project returns, but also distributes Project risk between Investor and manager.

Weaknesses

- The Wood Purchase Agreement does not nominate specific volumes and prices. The timber will be sold as logs, effectively at the prevailing market price, having regard for the species, the location and the quality of the timber.
- Drought and flood losses are not covered by optional insurance. However, these risks are mitigated to the extent that the strict land selection procedures are implemented and by the provision of minimum stocking rate guarantees.
- The floor price mechanism for timber produced in Option 1 and 2 is established as a proportion of a variable market price which is not as robust relative to a fixed floor price.
- On an NPV basis, approximately 48% of Project revenue will be generated from the four Option 1 woodlots. The majority of these woodlots are expected to be established in northern NSW, a region which is still largely unknown in terms of its *Eucalyptus* production capacity. Therefore, actual yields may be lower than expected. However, FEA Plantations has informed Lonsec that it has recently secured productive forestry land which is undergoing clearfall harvest. This land is expected to be used for plantations to be established in this Project. Whilst Lonsec has not inspected inventory data, yields are believed to be encouraging.

Opportunities

- Strong worldwide demand for high quality plantation hardwood pulp including Chinese and South American pulp processors.
- As FEA grows its forest resource and processing facilities, it will become a stronger player vis-à-vis the Asian woodchip and timber buyers which may increase FEA's bargaining position.
- FEA has completed a significant mill expansion to install large log sawing capacity, kilns, drying sheds and moulding/planing infrastructure at Bell Bay in Tasmania. These, and similar facilities likely to be established around FEA's plantation resource in northern NSW, may potentially increase the margins on the timber produced in this Project.

Threats

- Increasing production from competing countries could place downward pressure on international pricing of timber products produced in this Project.
- With increasing national public awareness of environmental issues, the regulation and certification of environmental management has been subject to increasing public scrutiny and compliance costs.
- A general downturn in economic conditions in key markets may result in reduced demand for timber based products.
- Improvements in paper recycling technology and increased recovery rates of recycled paper fibre may impact pulpwood demand dynamics.
- Pest and disease threat in northern NSW and the Douglas Daly region of the NT is significant. An ongoing stringent management program is paramount in minimising these risks and in achieving expected timber yields and quality

Key Drivers of the Project

Lonsec believes that the following key project components will drive the success of FEA Plantations Project 2009.

Experience and strength of the Manager

Forest Enterprises Australia Limited (FEA) specialises in the forestry and forest products sectors. Established in 1985 as a specialist plantation forest manager, FEA has grown to become one of the largest plantation managers in Australia, with over 72,000 hectares of plantations under management across Tasmania, New South Wales and Queensland.

FEA Plantations offered its first forestry managed investment scheme in 1993, and has offered a total of 17 consecutive forestry-based investments and 1 property-based investment.

The FEA Group is a vertically integrated group of companies participating across the full spectrum of the timber production value chain. Subsidiaries of FEA are active in the sale of forestry investments, establishment, maintenance and harvesting of plantations through to the processing and marketing of forest timber products.

FEA's vertically integrated business model provides a diversified revenue stream which strengthens the company's financial security.

Options 1&2

Wood Purchase Agreement and Floor Price Mechanism

Investors in **Options 1 & 2** are provided with some downside protection against falling market stumpage prices through the floor price mechanism agreed to in the Wood Purchase Agreement between the RE and FEA.

Under adverse market conditions, should market stumpage prices (on which timber products produced in this Project will be sold) fall proportionately greater than the FOB woodchip price (upon which the floor prices are calculated), then the market stumpage price and the floor price at that point in time may converge after which Investors will be protected from any further decline in market stumpage prices.

Although this 'floating' structure may not be as effective relative to one that is fixed, it still somewhat increases the robustness of the Projects' financial returns to adverse movements in timber stumpage prices.

See section 8 and 5 of this report for more information of the functionality of the Floor Price mechanism and details of the Wood Purchase Agreement, respectively.

Timber value-adding opportunities

FEA is a participant in the forest products segment which includes the milling and processing of plantation timber. FEA's timber division operates sawmilling and processing operations at Bell Bay in northern Tasmania which produces its branded timber products EcoAsh, EcoAshclear and BassPine. FEA is also a joint-venture partner in SmartFibre, a woodchip processing and export company also located at Bell Bay.

There is potential for timber produced in these Projects to be processed and marketed through FEA's timber division. Consequently, Investors may obtain a price premium for timbers produced in either Project which creates upside potential.

Diversification benefits

The geographic diversity of both **Options 1 & 2** spreads production limiting risks. A localised event such as drought, fire, wind, and pest and disease infestation may only affect a fraction of the project plantings, thereby reducing the impact of such an event on pooled Investor returns.

Option 3

Timber value-adding opportunities

FEA is a participant in the forest products segment which includes the milling and processing of plantation timber. FEA's timber division operates sawmilling and processing operations at Bell Bay in northern Tasmania which produces its branded timber products EcoAsh, EcoAshclear and BassPine. FEA is also a joint-venture partner in SmartFibre, a woodchip processing and export company also located at Bell Bay.

There is potential for timber produced in this Project to be processed and marketed through FEA's timber division. Consequently, Investors may obtain a price premium for timbers produced in either Project which creates potential for upside returns.

Maturity of *Pinus radiata* production and processing systems

Pinus radiata is the most widely used plantation timber species in Australia. FEA will be able to draw upon the well refined silvicultural, harvesting and processing techniques which have evolved from decades of industry research and development. This, in addition to the availability of genetically improved seed stock, will assist in reducing production risks and aid in optimising growth rates and timber yields

Option 4

Market Outlook

There are reducing supplies of tropical hardwoods globally as a result of over-harvesting and illegal logging in third world countries. It appears likely that the timber resource will continue to come under pressure in the future, creating positive demand and supply fundamentals that should facilitate strong returns to market participants.

African mahogany (*Khaya senegalensis*) is a highly valued timber with demand and market prices expected to remain strong in the future.

High Value Product

The project is expected to have 2 commercial harvests (1 thinning and 1 clearfall) with an estimated clearfall stumpage price of $440/m^3 (in 2009 dollars).

All of the management and land sourcing fees are relatively low in comparison to similar projects and these fees are deducted from net harvest proceeds, which provide an incentive for the management to maximise net harvest proceeds for the benefit of both the manager and investor. In addition, the project structure provides greater potential for robust financial returns with proportional fees as a percentage of net proceeds.

Option 5

Wood Purchase Agreement and Floor Price mechanism

A Wood Purchase Agreement between the RE and FEA exists for this Project, whereby timber produced will be sold to FEA at a 'fair and reasonable price' as determined by an independent valuer. The defined terms of the agreement provides confidence that the timber will be sold, and at a reasonable price.

Under the Wood Purchase Agreement, timber produced in Option 1 and 2 woodlots is subject to a floor price mechanism which provides Investors in this Project some downside protection against falling market prices for this timber. Under adverse market conditions, should market stumpage prices (on which timber products produced in this Project will be sold) fall proportionately greater than the FOB woodchip price (upon which the floor prices are calculated), then the market stumpage price and the floor price at that point in time may converge after which Investors will be protected from any further decline in market stumpage prices.

Although this 'floating' floor price structure may not be as effective relative to one that is fixed, it still somewhat increases the robustness of the Projects' financial returns to adverse movements in timber stumpage prices.

See section 8 and 5 of this report for more information of the functionality of the Floor Price mechanism and details of the Wood Purchase Agreement, respectively.

Timber value-adding opportunities

FEA is a participant in the forest products segment which includes the milling and processing of plantation timber. FEA's timber division operates sawmilling and processing operations at Bell Bay in northern Tasmania which produces the branded timber products EcoAsh, EcoAshclear and BassPine. FEA is also a joint-venture partner in SmartFibre, a woodchip processing and export company located at Bell Bay. Lonsec is aware that FEA intends to further expand its processing capacity by pursuing opportunities around the company's forestry resource in the northern NSW region.

There is potential for timber produced in this Project to be processed and marketed through FEA's timber division. Consequently, Investors may obtain a price premium for timbers produced in either Project which creates potential for upside returns.

Project diversification

The Project aims to produce a rage of products targeting different timber markets: namely the construction, appearance, high value timber and pulpwood industries. Markets are both domestic and international and are driven by differing fundamentals which diversifies the Project's exposure to market risks.

Woodlots in the Project will be established across a range of climatic regions with different management strategies and harvest timetables. The species and geographic diversity reduces the risk of any one localised event (e.g. wind, fire, drought or pest or disease attack) significantly impacting on pooled Project returns

1. Investment Offer and Structure

1.1. Project Outline

The PDS dated 7 May 2009 constitutes a retail offer, with the opportunity to participate in FEA Plantations Project 2009. The Australian Tax Office (ATO) has issued the following Product Rulings:

Option 1: PR 2009/23
Option 2: PR 2009/24
Option 3: PR 2009/25
Option 4: PR 2009/26
Option 5: PR 2009/27

1.2. Key features of the Projects

Options 1&2

Options 1 and 2 of FEA Plantations Project 2009 offer Investors the opportunity to participate in the afforestation of *Eucalypt* trees. The respective key features for each Option are:

- Option 1 – Investors become participants of a 14 year *Eucalypt* Project aiming to produce unpruned sawlogs and pulp logs for the construction and pulpwood industries, respectively. A commercial thinning is expected to be carried out in year 10, with clearfall harvest expected in year 14. Plantations in this Option will be located in Tasmanian and northern NSW.
- Option 2 – Investors become participants of a 17 year *Eucalypt* Project aiming to produce pruned sawlogs, unpruned sawlogs and unpruned pulp logs for the appearance, construction and paper industries, respectively. A commercial thinning is expected to be carried out in year 10, with clearfall harvest expected in year 17. Plantations in this Project will be located in Tasmania and potentially northern NSW.
- The minimum investment in both Projects is one Woodlot of 0.5 hectares (ha), requiring an initial outlay (Establishment Fee) of $3,450 per Woodlot. Land Sourcing and Management fees are deducted at 14% and 4% of net Harvest Proceeds, respectively. Additionally, the Manager is entitled to 50% of the proceeds from the sale of Carbon Credits generated in the Projects.
- Investors in Option 2 also pay pruning fees of $385, $405 and $430 in Project years 4, 6 and 8 respectively.
- Investors, upon acceptance into the project, appoint the RE to establish *Eucalypt* plantations in accordance with the Constriction and Compliance plan, and carry on the future management and maintenance of their interest.

Establishment Fee (Options 1, 2, 3, 4)

Upon application, Investors must pay an Establishment Fee of $3,450 per Woodlot, this being for the preparation of the land, supply and planting of the seedlings and other forestry establishment services.

Lonsec notes that as a result of Division 394 of the ITAA 1997, the GSTR 2008/D1 and the ruling on the high court ruling on non-forestry MIS projects in December 2008, GST is not payable on investor payment made into an Agribusiness MIS project, where the investor is deemed not to be caring on a business. However, investors should note some GST may be payable on items such as Insurance administration, to which an input tax credit is not available.

Land Sourcing and Management Fee

Land Sourcing and Management Fees payable are deferred until harvesting of the trees takes place. Fees payable to the RE are 18% of net Harvest Proceeds, comprising of a 14% Land Sourcing fee and 4% Management Fee. These fees are deducted before distribution to Investors.

With Land Sourcing and Management Fees being a percentage of harvest proceeds, it effectively aligns the interests of the Responsible Entity and Investors. This provides the Responsible Entity with an incentive to maximise returns for the benefit of both parties

Pruning Fee

For Investors participating in Option 2, pruning fees will be payable around years 4, 6 and 8 of the Project. These fees are $385, $405 and $430 per Woodlot respectively, indexed at CPI.

FEA Plantations will invoice Option 2 Investors by 30 June in the year that pruning has been completed.

Insurance (All options)

FEA will use its best endeavours to make available optional insurance for Investor's Woodlots. Investors may apply for insurance to cover their standing timber against loss or damage by fire and other insurable risks (See section 7 of this report).

Timber sales

Investors will receive a payment for wood sold following thinning and clearfall harvests. FEA Plantations will take on the responsibility as agent for Investors to sell the harvested wood to FEA.

FEA has entered into a Wood Purchase Agreement for the purpose of purchasing wood grown under Options 1 and 2, and is required to pay Investors a fair and reasonable price for the timber. If FEA Plantations does not approve the purchase price and delivers to FEA an alternative offer in writing to purchase on the same general terms and conditions as the offer from FEA, but at a higher price, FEA has the option to purchase the wood for the higher price specified. If FEA fails to agree to the higher price or decides not to purchase the wood, FEA Plantations may sell the wood to another buyer.

The Wood Purchase Agreement provides for an independent expert to evaluate and approve the purchase price on behalf of Investors in the project.

All proceeds of timber sales with respect to each Option will be pooled. Investors will share in the proceeds for each pool pro-rata to the number of Woodlots, less their share of Land Sourcing and Management Fees, which will be deducted from the Harvest Proceeds before distribution. Lonsec notes the advantage for Investor with a pooling returns structure, as risk faced by individual Investors from losses and partial damage resulting from diseases, pests and the impact of weather and climatic events on their individual Woodlots is distributed amongst all project Investors.

Investor Finance (All options)

Applicants may apply to fund their investment through FEA or their preferred financier, Commonwealth Bank of Australia. FEA finance requires a 20% deposit.

See section 12 of this report for further information on finance packages.

Secondary market (All options)

Commencing 1 July 2007, the Federal Government (Australia) passed legislation that allows "investors in forestry managed investment schemes (forestry MIS) to trade their interests once they have been held by the initial investor for a period of at least four years. More information is available on the Lonsec website.

Option 3

Option 3 of FEA Plantations Project 2009 offers Investors the opportunity to participate in the afforestation of *Pinus radiata* (radiata pine) in Tasmania and potentially NSW.

Timber from the Project will be processed into BassPine sawntimber for the domestic housing and construction industries, and SmartFibre softwood woodchips for export.

The minimum investment in the Project is one woodlot of 0.5ha in size. A single Establishment Fee of $3,450 per woodlot is payable with optional insurance payable annually. Deferred Land Sourcing and Management Fees are deducted from net harvest proceeds at 12% and 3%, respectively. Additionally, the Manager is entitled to 50% of the proceeds from the sale of Carbon Credits generated in the Projects.

Commercial thinnings are expected to be carried out in years 14 and 19 of the Project, with clearfall harvest expected in year 26. It is anticipated that Option 3 woodlots will not be pruned.

Investors have the option to participate in a buy-back offer at around year 16 of the Project, or invest over the full 26 year Project term.

The project is a Managed Investment Scheme in accordance with the Corporations Act and the terms and conditions of the Constitution.

The Constitution constitutes a contract between the RE (FEA Plantations) and each Investor to establish, manage, harvest and market Investors' timber, and is legally enforceable and sets out each party's respective rights and responsibilities.

FEA Plantations has prepared a Compliance Plan as required by the Corporations Act in order to ensure that the RE manages the Project in accordance with its obligations and responsibilities.

Land Sourcing and Management Fee

Land Sourcing and Management Fees payable are deferred until harvesting of the trees takes place. Fees payable to the RE are 15% of net harvest proceeds, comprising of a 12% Land Sourcing Fee and 3% Management Fee. These fees are deducted before distribution to Investors.

With Land Sourcing and Management Fees being a percentage of harvest proceeds, it aligns the interests of the Responsible Entity and Investors. This provides the Responsible Entity with an incentive to maximise returns for the benefit of both parties

Buy-back offer

FEA Plantations, or a related company, will offer to buy-back Investors interests Option 3 woodlots at approximately year 16 of the Project. Investors may opt to be bought out for 90% of the value of the woodlot(s). The valuation will be conducted by an independent valuer in accordance with the Australian Standard for valuing commercial forest. The value will be derived by calculating a Net Present Value of future revenues per unit based on yield projections from growth modelling and current and likely future market prices and conditions. The NPV will then be used to determine the 90% level value of the woodlot(s).

This process will be undertaken and verified by an Independent Forester and a report outlining the methodology and conclusions reached will be made available to Investors.

Timber sales

Investors will receive a payment for wood sold following thinning and clearfall harvests. FEA Plantations will take on the responsibility as agent for Investors to sell the harvested wood to FEA.

FEA has entered into a Wood Purchase Agreement for the purpose of purchasing wood grown under Option 3, and is required to pay Investors a fair and reasonable price for the timber. If FEA Plantations, does not approve the purchase price and delivers to FEA an alternative offer in writing to purchase on the same general terms and conditions as the offer from FEA, but at a higher price, FEA has the option to purchase the wood for the higher price specified. If FEA fails to agree to the higher price or decides not to purchase the wood, FEA Plantations may sell the wood to another buyer.

All proceeds of timber sales with respect to each Woodlot option will be pooled. Investors will share in the proceeds for each pool pro-rata to the number of Woodlots held, less their share of Land Sourcing and Management Fees, which will be deducted from the Harvest Proceeds before distribution. Lonsec notes the advantage for Investor with a pooling returns structure, as risk faced by individual Investors from losses and partial damage resulting from diseases, pests and the impact of weather and climatic events on their individual Woodlot(s) is distributed amongst all Project Investors.

Option 4

Investors are offered the opportunity to participate in a project that is to grow African mahogany in a plantation located in the Northern Territory. The Project is expected to have a duration of 18 years after establishment (19 years in total) with two commercial harvests. A thinning harvest is scheduled in year 11 of the project with a clearfall harvest at year 18.

Investors, upon acceptance into the project, appoint the RE to establish a mahogany plantation in accordance with the Constitution and Compliance plan, and carry on the future management and maintenance of their interest.

Land sourcing and management fee and ongoings

Land Sourcing and Management Fees are deferred until harvest. Investors pay a Management Fee of 5% and a Land Sourcing Fee of 15% net harvest proceeds, prior to distributions to Investors.

This deferred fee, calculated as a percentage of harvest proceeds, effectively aligns the interests of the Responsible Entity and Investors, providing the Responsible Entity with an incentive to maximise returns, for the benefit of both parties.

Timber sales

Investors will receive payments for wood sold following commercial thinning in year 11 and clearfall in year 18 after establishment of the project. FEA Plantations will take on the responsibility as agent for Investors to sell the harvested wood to FEA.

FEA has entered into a wood purchase agreement for the purpose of purchasing wood grown under Option 4, and is required to pay Investors a fair and reasonable price for the timber. If FEA Plantations does not approve the purchase price and delivers to FEA an alternative offer in writing to purchase on the same general terms and conditions as the offer from FEA, but at a higher price, FEA has the option to purchase the wood for the higher price specified. If FEA fails to agree to the higher price or decides not to purchase the wood, FEA Plantations may sell the wood to another buyer.

All proceeds of timber sales with respect to each Woodlot option will be pooled. Investors will share in the proceeds for each pool based on the number of Woodlots owned as a percentage of the total number of Woodlots in the relevant option, less their share of land sourcing and management fees, which will be deducted from the harvest proceeds before distribution. Lonsec notes the advantage to Investors from a pooled returns structure, as risk faced by individual Investors from losses and damage caused by diseases, pests, weather and/or climatic events, is reduced through distributing any losses across all project investors.

For further information on timber sales refer to section 10 of the PDS.

Option 5

Option 5 of the FEA Plantations Project 2009 offers Investors the opportunity to participate in a geographically and sector diversified forestry project. One investment unit in this Project consists of four Option 1 woodlots and one woodlot in each of the Option 2, Option 3 and Option 4 Projects offered in the FEA Plantations Project 2009 PDS. This equates to a total of 7 woodlots per investment unit of a total area of 3.2 hectares.

Investors, upon acceptance into the project, appoint the RE to establish the plantations in accordance with the Constitution and Compliance Plan, and carry on the future management and maintenance of their interest.

Establishment Fee (Option 5)

Upon application Investors must pay an Establishment Fee of $23,000 per unit, this being for the preparation of the land, supply and planting of the seedlings and other forestry establishment services for each of the woodlots. The offer to Investors closes on 30 June 2009.

The Project's Establishment Fee is discounted approximately 5% on the fee payable should the relevant woodlots were acquired individually.

Land Sourcing and Management Fee

Land Sourcing and Management Fees payable are deferred until harvesting of the trees takes place. Fees payable to the RE for Option 1 and 2 woodlots is 18% of net Harvest Proceeds and 15% for Option 3. Land Sourcing and Management Fees for Option 4 is slightly higher at 20%. These fees are deducted before distribution to Investors.

Pruning Fee

The Option 2 woodlot will require three pruning operations in approximately years 4, 6 and 8 of the Project. These fees are equal to $385, $405 and $430 per woodlot respectively, indexed at CPI. FEA Plantations will invoice Investors by 30 June in the year that pruning has been completed.

The cost of pruning of Option 4 woodlots in project years 3, 5 and 7 will be borne by the RE.

Option 3 Buy-back offer

FEA Plantations, or a related company, will offer to buy-back Investors Option 3 woodlot(s) at approximately year 16 of the Project. Investors may opt to be bought out for 90% of the value of the woodlot(s). The valuation will be conducted by an independent valuer in accordance with the Australian Standard for valuing commercial forest. The value will be derived by calculating a Net Present Value of future revenues per unit based on yield projections from growth modelling and current and likely future market prices and conditions. The NPV will then be used to determine the 90% level value of the woodlot(s).

This process will be undertaken and verified by an Independent Forester and a report outlining the methodology and conclusions reached will be made available to Investors.

Timber sales

Investors will receive a payment for wood sold following thinning and clearfall harvests. FEA Plantations will take on the responsibility as agent for Investors to sell the harvested wood to FEA.

FEA is committed to entering into a Wood Purchase Agreement for the purpose of purchasing wood grown in this Project and is required to pay Investors a fair and reasonable price for the timber. If FEA Plantations does not approve the purchase price and delivers to FEA an alternative offer in writing to purchase on the same general terms and conditions as the offer from FEA, but at a higher price, FEA has the option to purchase the wood for the higher price specified. If FEA fails to agree to the higher price or decides not to purchase the wood, FEA Plantations may sell the wood to another buyer.

The Wood Purchase Agreement provides for an independent expert to evaluate and approve the purchase price on behalf of investors in the project.

All proceeds of timber sales with respect to each Option will be pooled. Investors will share in the proceeds for each pool pro-rata to the number of Woodlots, less their share of Land Sourcing and Management Fees, which will be deducted from the Harvest Proceeds before distribution. Lonsec notes the advantage for Investor with a pooling returns structure, as risk faced by individual Investors from losses and partial damage resulting from diseases, pests and the impact of weather and climatic events on their individual Woodlots is distributed amongst all project investors.

1.3. Project Agreements (All Options)

The relevant Agreements relating to the establishment, management and sale of the Project and timber are:

- Constitution
- Compliance Plan
- Wood Purchase Agreement

The material agreements which govern or have an influence on the relationship between FEA Plantations (as the Responsible Entity) and the Investors are summarised in section 15 of the PDS. Complete copies of these agreements are available on application from the Responsible Entity. Where applicable, Lonsec has reviewed the summary information provided in the PDS pertaining to the material agreements. Lonsec has not engaged a solicitor to review the Project agreements, legal structure and the FEA Plantations' due diligence process. As such, Lonsec has not provided a detailed assessment of these documents within the scope of this report.

Investors should also seek their own independent professional advice prior to entering into any of the Project Agreements.

Constitution

This document establishes the Project and is the primary document governing the relationship between FEA Plantations and the Investors. It defines the Project terms, application process, management of project funds, business management, and legal rights and obligations that apply to the Responsible Entity and Investors under applicable laws and regulations.

Compliance Plan

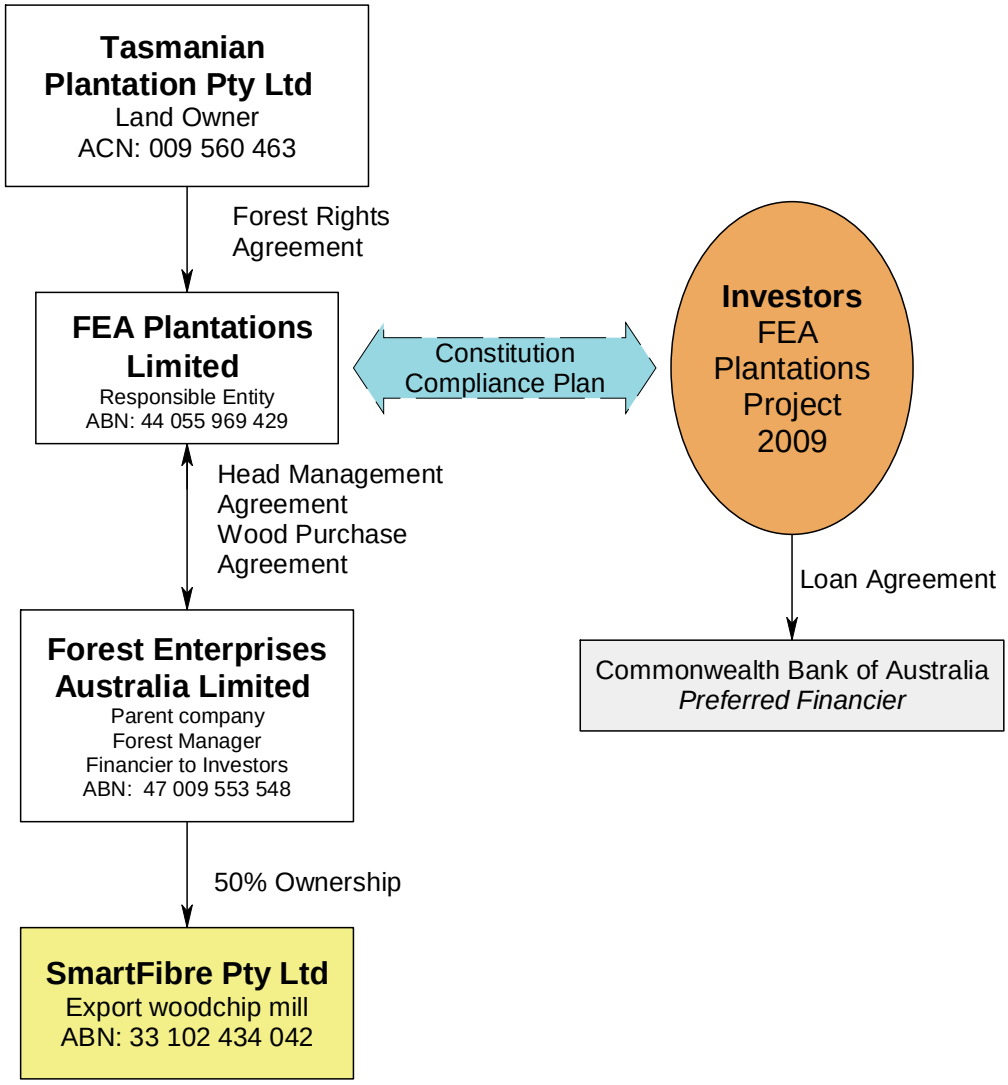
The Compliance Plan sets out the measures, processes, and procedures the Responsible Entity will use in managing the project to ensure compliance with the material project agreements, Corporations Act, ASIC policy, and the ATO Product Ruling specifications.

Wood Purchase Agreement

As discussed in section 1.1 of this report, this agreement has been established between FEA Plantations and FEA for the sale and purchase of wood derived from Investors' Woodlots. The agreement specifies the determination of a fair and reasonable price, accounting for a range of relevant pricing, timing, and quality factors. This agreement also details the Average Comparative Price, which is determined by the average price paid over the prior two years for wood of the same or similar species, quality and quantity in the same region or state from which the timber was derived. The price offered for a specific log type is to be evaluated and approved by an independent expert.

1.4. Project Structure

Figure 1.1 – Project Structure, including the external and Project related parties

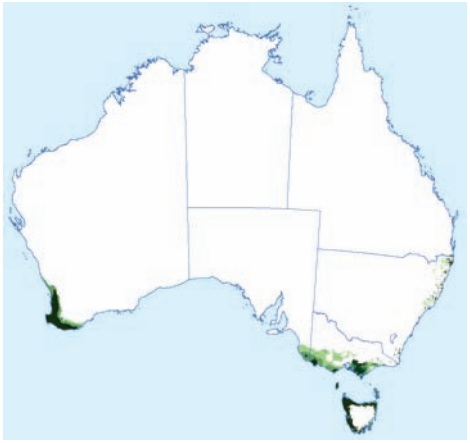


2. Industry Outlooks

2.1. Pulpwood industry summary

Pulpwood	2008
Broadleaved plantation area 2006-07	883,000 ha
Growth in plantation area 2005-06 to 2006-07	5%
Pulpwood production 2006-07 (tonnes)	8.5 m
Volume of paper / paperboard production 2006-07	3,192 kt
Change in Australian apparent log consumption per capita (2005-06 to 2006-07)	-5.0%
Imports of recovered paper	57.6 kt
Change in recovered paper imports 2004-05 to 2006-07	3%
Total woodchip exports 2006-07 (tonnes)	5.95 m
Total Value of woodchip exports 2006-07	$950 m
Woodchip export growth by volume 2006-07	11%
Total timber and timber products exports (excluding timber furniture) 2006-07	$2.4 b

Figure 2.1 – Distribution of pulpwood plantations



Annual woodchip trade in the Pacific Rim region is estimated to be around 16 million BDMT (2006-07), which is supplied by 16 countries. Japan is the largest importer and the main driving force in the international woodchip market, accounting for about 85% of woodchip trade imports.

Japanese consumption of hardwood woodchips is expected to decline due to an anticipated downturn in pulp and paper production.

Paper and paperboard are the main drivers of global pulpwood trade. Global demand for such products is forecast to grow by 2.1% annually in the long term, reaching an estimated 490 million tonnes in 2020.

Long-term views of growth prospects in the West and Japan are moderate, with Eastern Europe and Asia, particularly China, expected to emerge as key markets in the global paper industry.

It is generally accepted that there will be more than sufficient wood fibre to meet demand in global terms, however regional supply imbalances can be expected, which will stimulate the future international trade in wood fibre.

Investors planting pulpwood trees with the intention of selling into the Japanese woodchip import market will face an increasingly competitive market situation by 2010. However, by expanding into other markets, such as China, Indonesia or India, this impact could be offset.

It is difficult to project future woodchip prices because of the range of factors which influence price. However, it is believed that the recent price spike cannot persist and that a downward trend in real hardwood woodchip price will occur because of the underlying global supply and demand dynamics.

It is difficult to determine long-term softwood woodchip prices because markets are highly volatile and dependent on pulp and paper market conditions and supply from other sources.

Certified plantation grown *Eucalyptus globulus* continues to be preferred in the major export markets, reflecting the assurance that it is sourced from sustainably managed forests, and also its superior pulping qualities.

Whilst price premiums for certified products may not be sustained in the future (relative to uncertified plantation product) it may assist in achieving market access and enhancing product attractiveness.

Increased utilisation of wastepaper will continue to reduce the demand for virgin fibre or pulpwood. Recovered fibre utilisation is expected to grow by more than 50% over the next ten years, with China expected to have a utilisation rate of approximately 78%.

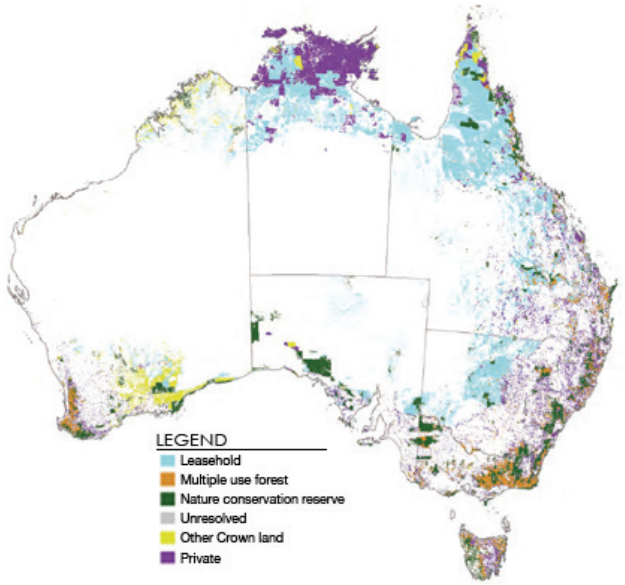
At present Australia imports approximately 43% of its paper and paperboard products, primarily as printing and writing papers. There is potential for the domestic pulpmill industry to expand, subsequently filling some of this deficit which may have an influence on domestic woodchip prices.

Shipping costs are the primary determinant of cost-competitiveness in the global woodchip trade. Rising fuel prices are somewhat eroding Australia's cost competitive position in key Asian markets, particularly relative to the expanding South East Asian pulpwood resource.

2.2. Construction timber industry summary

Construction Timber	Oct, 2008	
	Softwood	Hardwood
Area of Plantation (hectares) 2007	1.9 million	
Annual timber industry turnover	$19 billion	
Contribution to GDP	1% approx	
Planted area (hectares) 2006-07	0.89m	1.01m
Plantations as a proportion of total Australian plantings	53%	47%
Land area increase 2001-2007	30%	50%
Production Increase/(Decrease) (2000-01 to 2006-07)	36%	(14%)
Price Growth/(Decline) 2000-01 to 2006-07	(41%)	(10%)
Export Value Sawnwood 2006-07	$18.07m	$11.05m
Export Value Roundwood 2006-07	$117.4m	
Sawnwood Export Unit Value 2006-07	$86.34/m^3	$92.87/m^3

Figure 2.2 – Australian Forests



The Australian timber sector represents the nation's second largest manufacturing industry, with an annual turnover of $19 billion. The industry contributes around 1% to Australia's Gross Domestic Product, and 7.2% of manufacturing output.

Overall, Australian hardwood and softwood timber production (combined sawnwood) has increased at an annual average rate of 3.6% between 1995-96 and 2006-07. The area of hardwood plantations has increased significantly in Australia over the last two decades; however, this is primarily attributable to the production of pulpwood.

Between 1995-96 and 2006-07, the production of sawnwood (softwood) increased at an average annual rate of 6.5%.

Demand for sawn timber in Australia has remained relatively stable over the last decade, however per capita sawn timber consumption has declined. This decline, whilst not unexpected, reflects a number of factors including changes in construction techniques, increased prominence of multi unit dwellings, greater importation of secondary wood products and the increasing use of wood panel products instead of solid timber.

Softwood has been the major contributor driving the increase in domestic sawnwood consumption, experiencing a 3.0% pa growth in consumption over the period 1994-95 to 2006-07.

The consumption of hardwood and softwood construction timber is closely related to the level of activity in the construction industry. The major end user for hardwood and softwood sawn timber is the domestic dwelling construction industry comprising houses, units and apartments. Between March 1980 and March 2008, dwelling construction increased by 41.1% to 9,863 dwellings per quarter, increasing at an average quarterly rate of 1.4%.

Roundwood exports to Korea have dominated Australian exports over the last 10 years, with 33.6% or 616,800 m^3, of the total $1.83 million m^3 of Australian roundwood exported to Korea in 2006-07.

China imported approximately 41.3 million m^3 in 2006 (total sawn and log volume), and was the world's largest importer of sawn hardwood at 5.7m m^3 in 2006. China's imports have increased significantly since 1996, with overall sawn timber imports increasing by approximately 4.8 million m^3 between 1996 and 2006. The Chinese market has received increasing attention as an attractive export market for wood exporters.

Lonsec believes that in the wake of the current 'financial crisis', tightened credit markets and the turmoil in the US housing and construction industries, it is likely that demand for construction timbers will moderate over the next few years. It has been reported that Asia economies have slowed to single figure growth rates for the first time in many years under the pressure created by the 'credit crisis'. As a result of these factors, Lonsec expects that timber prices will exhibit some softening in the short term due to moderated demand. However, despite this, the actual price movement may be offset by the increasing supply restrictions created by bans on native timber logging given that they continue to be enforced.

2.3. African Mahogany Industry Summary

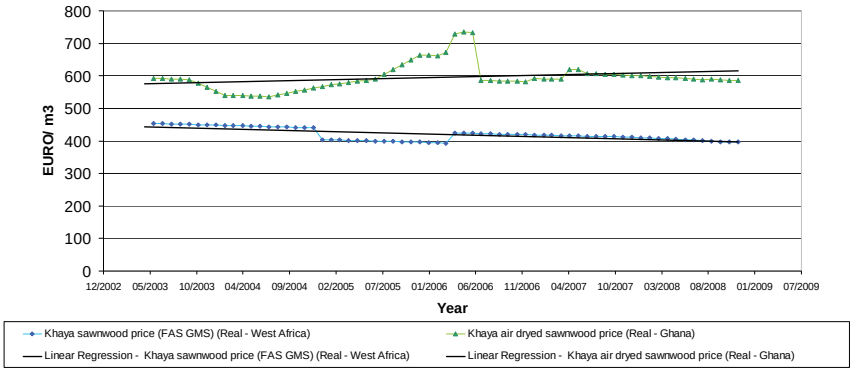
African mahogany refers to several species in the *Meliacaea* family of the genus *Khaya*. Principally these species include *K. ivorensis*, *K. anthotheca*, and to a lesser extent *K. nyasica*, *K. grandifoliola* and *K. senegalensis*. The genera vary between different countries and regions. *Khaya* originates from Africa while *Swietenia* comes from Latin America but is also planted in Indonesia, and Oceania. *K. senegalensis* is of greatest interest to the Australian timber industry, which has prompted the investigation and trial (as well as the development of several commercial plantations) of this species in plantation located in the dry tropics of Australia.

Khaya senegalensis (African mahogany) has been identified as a potentially valuable plantation species suitable for commercial planting in the dry tropics of Australia. CSIRO established the first plantation trials of African mahogany at sites near Darwin during the late 1950s. It was later included in mine rehabilitation programs established in Cape York during the early 1970s, and more recently large-scale plantations have been proposed and developed under the direction of Managed Investment Schemes (MIS) and Timber Investment Management Organisations.

According to ITTO (2005), a few West African countries, predominantly Ghana, are the main suppliers of African mahogany. Most supplies of Brazilian mahogany have also been from native forests in Latin America. The supply of Brazilian mahogany has become increasingly scarce, particularly since inclusion of *Swietenia* in Appendix II of the Convention on International Trade in Endangered Species (CITIES) and a logging ban in Brazil. The potential supply of Brazilian mahogany and other *Khaya* species from plantations is therefore likely to be well received in markets, although prices for plantation grown logs are considerably discounted compared to native forest logs. Lonsec believes that as native mahogany supply decreases, closer parity between plantation and native timber price will be achieved.

At the end of 2008 the prices for African mahogany sawnwood (*Khaya*) ranged between $790/m^3$ and $1,240/m^3$, out of West Africa and Ghana. Prices for *Khaya* have remained relatively flat in nominal terms, according to the data published by the ITTO, which is most likely the result of low volumes of sawnwood being traded on the international market.

Figure 2.3 – African mahogany Sawnwood Prices (real, in 2009 dollars); West Africa and Ghana



Source: ITTO (2008), Lonsec

The demand for African mahogany was reported to be strong in EU countries in 2007, although strong price competition from alternative species (particularly *meranti*) has slowed demand in the US, resulting in softened market prices. Despite moderated prices in the United States, the US continues to be the major market for *Khaya*. The unfavourable exchange rate between the US dollar and Euro is the major factor that has resulted in reduced exports of *Khaya* to the USA (ITTO, 2008).

In West Africa nominal *Khaya* sawnwood prices have remained flat at 396 Euro/m^3, with the exception of a large price shift between December 2004 and November 2006, where prices dropped to 366 Euros per m^3 (nominal). These abrupt price changes are typical in this market, and were likely the result of unfavourable supply and demand dynamics (of *Khaya*) in relation to many other prime species in the European market.

The aggregate West African price has shown a compound real annual price decline of 2.48%, over the last five years to June 2008, with prices from Ghana also relatively flat (nominally), showing a smaller decline in real terms at negative 0.24% per year (Figure 2.1).
Ghana in comparison to the other West African producers of Khaya, export predominantly to the US market (instead of to Europe). The increase in price received in Ghana is the result of the US increasingly restricting the logging of South American (Brazilian) mahogany in the US. The average price of African mahogany in Ghana (January 15, 2009) was 585 Euro/ m^3 (ITTO, 2008).

Lonsec believes that the influence on the demand for *Khaya*, as a substitute for Brazilian mahogany (*Swietenia spp.*); (supply of which has declined since its inclusion in Appendix II of CITES in 2003), will continue to benefit prices in the future. The extent of the price increase has been partly softened in recent times by the market substituting *Khaya* for

more readily available Southeast Asian species, although over the longer term, this highly favoured species in the US would be expected to see increased demand and price growth as the US economy begins to recover from the current financial crisis.

Lonsec believes that while demand for African mahogany will continue to remain strong in the long term, short term demand from the US may be depressed by the weak US dollar relative to the Euro, and the uncertain economic climate.

Conclusion

There are reducing supplies of appearance grade hardwoods globally as a result of over harvesting and illegal logging in third world countries. It appears likely that this timber resource will continue to come under pressure.

Therefore, demand for high quality plantation grown African mahogany is expected to be strong. The Australian hardwood industry, in particular, is well positioned to take advantage of the situation.

More information on the Industry Outlook for African mahogany is available on the Lonsec website www.lonsec.com.au

3. Management

3.1. Board of Directors of FEA

William Edwards
BA, LLB, MAICD
(Chairman / Non-Executive Director)

Edwards was appointed as a director in November 2002 and has served as Chairman since November 2004. He is a legal practitioner with experience in property law, estate planning and company law and trusts.

Anthony Cannon
BSc (For), MIFA, MACFA, MAICD
(Executive Director)

Cannon has been a director since 1985 and the Chairman of FEA Plantations Limited since 1988. He has over 30 years of forestry experience and is responsible for project development, forestry industry and government relations, and forestry technical support. He received the World Forestry Day Award (Tasmania) in 1999.

Michael Williams
BBus, CA, CFP, GAICD
(Non-Executive Director)

Williams was appointed as a director in November 2002. He is an accountant by profession and is currently a principal of Camerons, a Tasmanian accountancy practice.

Desmond King
FAICD
(Non-Executive Director)

King has been a director since December 2002. He has more than 50 years experience in the forestry industry in both the public and private sectors. He is a former CEO of Private Forests Tasmania and has owned and operated a forestry contracting business.

Vincent Erasmus
Nat Diploma in Forestry (Sth. Africa)
(Non-Executive Director)

Erasmus is the Chief Executive Officer of ITC Ltd. He has worked in the forestry industry for over 20 years, in both public and private sectors and in a range of roles encompassing logging, sawmilling, wholesale and industry development.

The Directors of FEA provide considerable experience in finance, forestry and business management.

The Board currently comprises Forestry Director, Anthony Cannon, and four non-executive directors. FEA is in the process of appointing two additional directors to the board of FEA.

The table below outlines the shareholding interests of the directors of FEA as at 30 June 2008. In addition, the directors own 369 Woodlots in various MIS projects.

Table 3.1 – FEA Shareholdings at 30 June 2008

Shareholder	No. of Shares	%
FEA Directors		
W D Edwards	12,276	0.003%
A M Cannon	7,206,861	1.779%
M J Williams	6,098,896	1.505%
D P King	16,250	0.004%
V M Erasmus	0	0.000%
Directors' Total	13,334,283	3.291%
Other Shareholders	391,784,717	96.709%
Total	405,119,000	100.0%

3.2. Senior Managers of FEA

Andrew White
B Sc (For), MAICD, MIFA
Chief Executive Officer

White has over 20 years experience in the forestry industry and has been CEO of FEA since 2003. White has previously worked for major Tasmanian forestry companies including Forest Resources (3 years), Boral Timber Tasmania (8 years), and Gunns (3 years) in range of senior management roles.

Fergus Leicester
B Bus (Acc), MBA, FCPA, FCIS, GAICD
Company Secretary & Chief Financial Officer

Leicester has over 15 years experience in financial and commercial roles within the forestry industry. Leicester joined FEA in 2005, prior to which he held commercial/accountancy positions, including Boral Timber (8 years) and Gunns (5 years).

Anthony Cannon
Director, Forestry Services

Refer to comments in Section 3.1.

Ken Last
Dip Accountancy
General Manager, FEA Timber Division

Over the last 30 years, Last has worked in the sawmilling industry holding various senior management positions, including managing director of Kauri Timber Co Ltd and Neville Smith Timber Industries Pty Ltd. Last has also served on numerous timber industry associations in Tasmania and Victoria, including six years as an executive committee member of the Forest and Wood Products Research and Development Commission.

Chris Barnes
B Ag Sc (hons), MBA, MIFA
General Manager, Plantation Operations

Barnes joined FEA in 2007 after having worked in a number of forestry and horticultural managerial roles in Tasmania since 1994. He heads FEA's plantation division and is based in northern New South Wales.

Doug Massey
BA, MBA
General Manager, Strategic Development – NSW/QLD

Massey is focused on special projects that will add value to FEA and its forestry resources in the medium to long-term. He is employed by FEA and is based in northern NSW.

Massey joined FEA as General Manager, marketing of SmartFibre in August 2005 and was instrumental in the creation of the SmartFibre network. Prior to this, he spent almost 13 years in Japan, with eight years at Daio Paper Corporation.

Mike O'Shea
MIFA
General Manager Business Development - Forestry

O'Shea is also based in northern NSW, and oversees the Group's business development and carbon monitoring. With more than 30 years experience in the forest industry, O'Shea has held senior management roles including General Manager of ECI's Tasmanian consulting and contract forestry operations (Hazell Bros Group), Woodchip Mill Manager (Gunns) and Operations Manager (North Forest Products).

Kristen McPhail
BA (Econ), Dip Fin Planning
General Manager, Sales & Marketing

McPhail has had extensive experience in the financial services industry since 1987. From 1999 she has held senior management roles in the MIS forestry industry, managing sales, marketing and business development on a national level.

Andrew Wye
B Sc (For), MBA
General Manager, SmartFibre

Wye is a professional forester with over 20 years experience in a range of operational and senior management roles within the forest industry in Tasmania and New Zealand.

Wye joined FEA in 2004 as the General Manger of SmartFibre.

3.3. Board of Directors of FEA Plantations

Anthony Cannon (Chairman / Executive Director)

Refer to comments in Section 3.1.

Michael Williams (Non-Executive Director)

Refer to comments in Section 3.1.

Gavin Wright
BA (Legal), CFP, Grad Dip Ed Admin, MAICD
(Non-Executive Director)

Wright is a director of the financial planning firm, Wright Planning Pty Ltd. He has experience in the financial planning, compliance and forestry industries.

Kerry Duncan
LLB, MAICD (Non-Executive Director)

Duncan has over 30 years experience as a senior commercial/corporate lawyer with significant experience in the financial services industry. He was appointed Chairman of the Compliance Committee in 2005 and currently consults to the Victorian Department of Infrastructure.

The Directors provide considerable experience in finance, agriculture, and business management.

3.4. Senior Managers of FEA Timber Division

Ken Last
General Manager, FEA Timber Division

Refer to comments in Section 3.2.

Trevor Innes
BE (Hons), PhD
Manager, Innovation

Innes has been Manager, Innovation for FEA's timber division since 2006. He has previously worked at the University of Tasmania as tutor, lecturer and post-doctoral research fellow. He also worked as the Technical Manager of the Timber Research Unit, School of Architecture and as technical advisor to industry.

Dale Jessup
Manager, Operations

Jessup has worked with FEA in this role since 2005. Prior to this, he gained extensive experience with Frenchpine commencing in 1984.

3.5. Operational Management – Forestry

Chris Barnes
General Manager, Plantation Operations

Refer to comments in Section 3.3.

Andy Corbould
B Sc (For)
Manager, Forestry Services

Corbould joined FEA in 2005 and oversees plantation management on behalf of MIS Investors. He also manages information systems, harvest wood-flow modelling, estate measurement, and Investor reporting. Previous experience includes Forestry Tasmania, Forests NSW and Boral Timber.

Hugh Harris
B Natural Resources, M Resource Sc
Plantations Manager, NSW/Qld Plantations

Harris joined FEA in 2006, and has responsibility for coordinating the plantation establishment program in northern New South Wales. Harris has 10 years experience in plantation forestry management and industry development.

Gordon Atkinson
B Sc (Forestry)
Plantations Manager, Northern Territory

Atkinson joined FEA in 2008, having previously worked for Northern Tropical Timbers Pty Ltd establishing African mahogany plantations in the NT. He has 15 years experience in natural resource management in the NT.

Randal Jacobson
Diploma of Forestry
Manager, Land Acquisition, NSW/Qld

Jacobson has been with FEA since 1996 and is responsible for plantation establishment/ maintenance, harvesting operations, road operations, forest planning, management of forestry staff, land procurement and operational budgeting in northern NSW. Prior to FEA, he operated truck and heavy machinery in forest operations and in agriculture.

Heath Blair
Certificate in Technical Forestry
Manager, Wood Supply

Blair has had extensive experience in the Tasmanian forestry industry since 1997, in both the commercial and governmental sectors.

Lonsec believes the management of FEA and FEA Plantations are suitably experienced to manage the MIS woodlot projects.

3.6. Remuneration Policy

Remuneration Committees are generally responsible for assisting the Board of Directors to ensure that suitable policies are in place for compensation arrangements for senior management and the Board itself.

Senior managers of FEA receive a fixed and variable remuneration and short and long term performance based incentives. Non-executive directors receive fees and do not receive options or bonus payments. Senior executives of FEA are rewarded with a level and mix of remuneration commensurate with their position and responsibilities. Senior executives are given the opportunity to participate in the Company's Option and Share Plan in which a proportion of their base remuneration may be used to purchase shares on-market. FEA encourages its senior executives to own FEA securities to further align their interests with the interests of other shareholders.

The Remuneration Committee offers appropriate incentives to executives and senior management to better align their interests with those of both shareholders and MIS Investors.

3.7. Compliance Committee

FEA Plantations has prepared a compliance plan for the Project as required by the *Corporations Act 2001 (Cwlth)* to ensure that it meets its obligations as RE and that the rights of the Investors are protected. FEA Plantations has also established a Compliance Committee to monitor the extent to which FEA Plantations complies with the compliance plan. The compliance committee is comprised of two external directors and one internal director.

The members of the Compliance Committee are:

- Ross Waining B Sc (Forestry), External Member
- Kerry Duncan LLB, MAICD, Internal Member
- Lou Johnson FCA, External Member

3.8. ASIC Database Search

As a matter of process, Lonsec conducts an ASIC database search across the key management and operations staff. Lonsec has found no outstanding records on the existing board of directors and officers of the FEA Group in relation to Disqualified Persons, Banned Securities Representatives, Banned Futures Representatives, or AFS Banned/Disqualified Persons.

3.9. Investment Marketing

The FEA Sales and Marketing Team includes four Business Development Managers, covering all six states and the Northern Territory, subsequently developing a distribution network comprising over 140 dealer groups and over 800 advisers throughout Australia.

FEA has a business services and product finance team of twelve people based in Launceston.

3.10. Agricultural Product Marketing

Pulpwood

Since its incorporation, SmartFibre has established relationships with three Japanese pulp and paper manufacturers, including one of the country's largest, for hardwood and softwood woodchips.

SmartFibre experienced substantial growth in woodchip exports over the 2008 financial year, increasing from about 285,000 tonnes in FY2007 to in excess of 500,000 tonnes in FY2008. Contract terms and price setting arrangements vary between customers and years. Each year woodchip prices are based on the Australian benchmark hardwood chip price (LAHCE).

Sawnwood

In recent years FEA has developed branded sawn timber products to market and promote hardwood and softwood sawnwood for structural, lining and flooring applications. Brands include EcoAsh, EcoAshclear, BassPine and, more recently, Khaya Mahogany.

Lonsec understands that FEA is progressing towards expanding its sawnwood product range to include truss, moulding, decking and laminated beams to supply local and interstate markets.

Lonsec believes that through continued product development and brand marketing, FEA is well positioned to seek and identify new market opportunities and work toward establishing price premiums for the company's sawn timber products which will ultimately benefit investors in FEA's managed forestry investment schemes.

3.11. Research and Development

FEA's Innovation Division has a research and development and technical support (sawmill) facility under the direction of Dr Trevor Innes. This team of eight conducts R&D for tree improvement, silviculture and breeding to harvest technologies, products and processing.

FEA is an actively partner in several research programs as well as performing some contract research for other groups and has formal and co-operative links to following organisations:

- Co-operative Research Centre for Forestry, based at CSIRO and the University of Tasmania in Hobart. Various working groups on nutrition, protection from insects, disease and vermin, and tree breeding.
- Southern Tree Breeding Association *E. globulus* tree breeding program.
- Queensland Department of Primary Industries and Fisheries. Taxa trials, tree breeding, nutrition and species/site matching.
- Browsing Damage Management Group. Mammal browsing (linked to Tasmanian Institute of Agricultural Research).
- Southern Cross University in Lismore. Forestry undergraduate and PhD students are employed in some plantation work, with local staff acting as field guides and tutors for some of their subjects.
- Supporting partner of the CRC Forestry in Hobart.
- Member of Subtropical Forest Health Alliance.
- Forest Wood Products Australia.

4. Business Strategy and Corporate Resources

4.1. FEA's Strategic Objectives

While Lonsec has not reviewed a formal business strategy provided by FEA, Lonsec believes the company is focussed on the following key objectives:

- To become a vertically integrated forestry and forest products company, with maximum utilisation of innovation and technology
- To develop a high quality private forestry resource, and
- To develop processing and marketing capacity to maximise returns to shareholders and MIS Investors with an emphasis on brand recognition and innovation

4.2. FEA's Strategic Approach

FEA is giving effect to these strategic objectives by the following means:

Vertical integration of the forestry and forest products operations

FEA has expanded its forest products operating division to support its vertical integration strategy. The most recent example is the replacement of its Hew Saw sawmill that it purchased in 2002 and the establishment of the new Bell Bay sawmill and processing facility in February 2008 which is considered a central platform to the company's vertical integration strategy. Lonsec is aware that FEA intends to further expand its processing capacity by pursuing opportunities around the company's forestry resource in the northern NSW region.

FEA's marketing approach has focussed on the development of a line of branded timber products, namely EcoAsh, EcoAshclear, BassPine, SmartFibre and most recently, Khaya Mahogany. The range of sawn timber products targets the local and interstate building and construction industries, whereas SmartFibre exports eco-friendly hardwood and softwood woodchips to NE Asia.

FEA has also diversified into the tropical forestry segment offering the African mahogany option in the FEA Plantations Project 2009, KhayaMahogany. This follows the acquisition of African mahogany assets in the Douglas Daly region of the Northern Territory in July 2008.

Development of a high quality private forestry resource

FEA controls a substantial private forest resource. This includes hardwood and softwood plantations managed for approximately 11,000 Investors representing 13,000 investments (involving in excess of 72,000 hectares) and 290,000 tonnes of softwood sawlogs purchased annually under a long-term contract with Timberlands Pacific Pty Ltd. These two resources enable FEA to reach commercial economies of scale and market a range of forest products.

Expansion of processing and marketing capacity

Now processing around 350,000 tonnes input per annum, the new Bell Bay sawmill and processing facility aims to increase input to at least 500,000 tonnes per annum by 2012-13. With 30,000 hectares of plantations under management in northern NSW region and a 10,000 hectare per annum expansion target, FEA is currently exploring a strategy to develop commercially viable value-added processing facilities in the area, similar to that of the new Bell Bay facility.

Certification

FEA has implemented an Environmental Management System (EMS) policy that complies with AS/NZS ISO 14001 to ensure the company's operations meet or exceed the environmental requirements of the standard.

Since its introduction, FEA's Tasmanian, NSW and Queensland operations have been certified to ISO 14001.

FEA achieved AFS certification of its 'defined forest area' estates in March 2007 (Tasmania) and June 2008 (New South Wales and Queensland).

The AFS accreditation recognises that FEA manages its plantations in an environmentally sustainable manner.

SmartFibre achieved Chain-of-Custody (CoC) certification in 2007 which assures processors and end-users that the product is AFS certified and that it has not been 'blended' with non-certified product. Lonsec understands that FEA is in the process of applying for CoC certification of its Bell Bay sawmill.

Certification forms an integral component of FEA's marketing strategy for its branded timber products.

4.3. Financial Resources

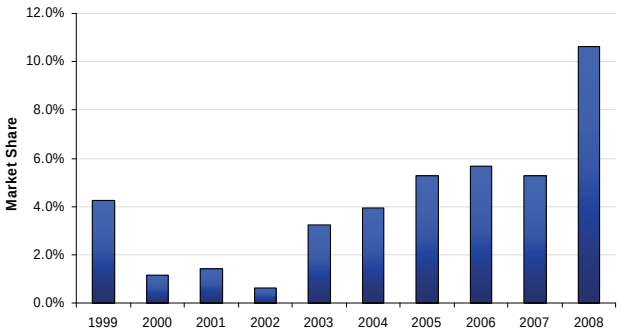
The following analysis is based on information provided in FEA's 2008 annual report.

MIS sales summary

FY2008 was characterised by challenging market conditions for MIS sales. Despite this, FEA managed to achieve a company record sales result of $114.5m, up 91% on FY2007 sales of $60.2m. Of this, Option 1, a 13 year *Eucalypt* sawlog and pulpwood Project, generated 82% of the Project's sales revenue.

FEA's market share of agribusiness MIS sales (both forestry and non-forestry) increased from 5.1% in FY2007 to 10.6% in FY2008.

Figure 4.1 – FEA's market share of agribusiness MIS sales



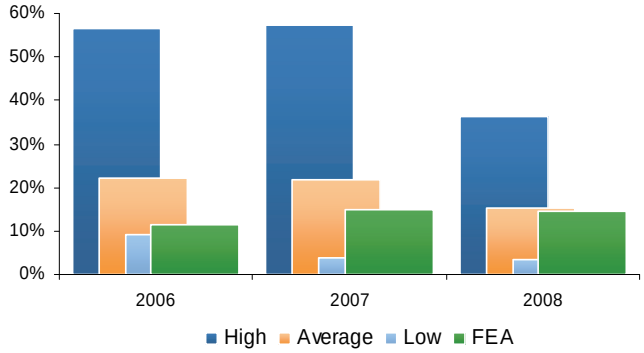
Profit and Loss Summary

In FY2008 FEA recorded strong revenue growth, generating a Lonsec adjusted operating revenue (less SGARA and interest revenue) of $166.6m, an increase of 42% from $117.3m in FY2007.

The company's substantial revenue growth was largely attributed to a 33% increase in MIS segment revenue generated from 2008 woodlot sales plus land and management fees received from Investors in previous projects. The opening of the new sawmill at Bell Bay in February 2008 significantly increased FEA's timber processing throughput and expanded the branded product range. This, coupled with increased woodchip exports through SmartFibre, helped to contribute to an 89% increase in Forest Products segment revenue.

Earnings Before Interest and Tax (EBIT) increased 31% over the FY2007 result, to $71.7m. Net Profit after Tax (NPAT) less SGARA rose 27% to $44.6m. However, FEA's Lonsec Adjusted Return on Equity slipped marginally by 3% to 14.4% as a result of strong equity growth, largely through increased retained profits, relative to adjusted NPAT.

Figure 4.2 – FEA Adjusted ROE



Cashflow

Cashflow analysis showed a $56.5m increase in the company's cashflow from operating activities to $66.6m. Funding of term debtors increased 94% on FY2007 and land acquisitions increased 64% to $62.6m, leading to an 81.3% increase in investment cash outflows to $184.0m.

Following an equity raising of $67.5m late in FY2007, FEA invested $54.7m in the development of the Bell Bay sawmill and the acquisition of forestry land during FY2008, The difference in timing of the cash inflows and outflows has contributed to the decrease in the company's cash position as at 30 June 2008. Lonsec notes that FEA has a policy to use surplus cash to retire bank debt, rather than hold cash in a low interest bearing bank account.

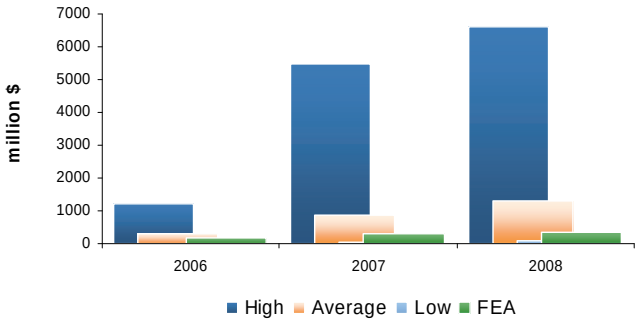
These outflows have placed pressure on FEA's Net Cash Flow position which stood at a deficit of $32.6m as at the end of FY2008, but has since improved due to the use of FEA's flexible banking facilities. The issue remains that the negative net cash position may prevent FEA from pursuing opportunities that could enhance the value of the company.

The company declared a FY2008 dividend of 2.5 cents per share, fully franked ($10.1m in total), which was subsequently paid on 7 October 2008. This is a 25% increase on the previous year's dividend of 2.0 cents per share.

Balance sheet summary

Over FY2008, FEA strengthened its balance sheet, recording a 15% increase in Net Assets over FY2007 to $331.7m. This increase is down substantially relative to the previous year's growth of 55%, largely due to non-current liabilities increasing over FY2008 by 334%.

Figure 4.3 – FEA Net Assets



Gearing

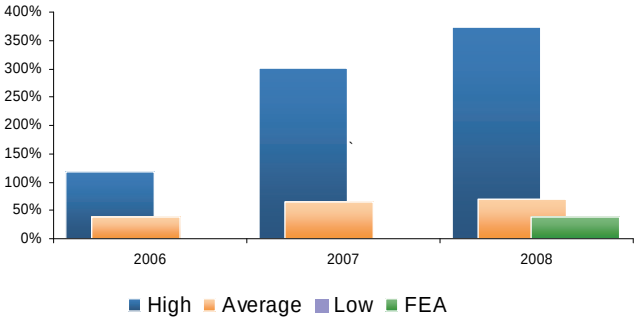
From FY2005 to FY2007, FEA's cash held exceeded the short and long-term interest bearing liabilities. Consequently, the company remained technically ungeared on a net debt / equity basis. Subsequent to the substantial increase in capital expenditure and reduction in cash during FY2008, as at 30 June 2008 FEA's net debt position was $127.8m, resulting in 38.5% gearing.

FEA recently expanded its finance facilities from $130m to $250m, provided almost equally by ANZ and the Commonwealth Bank. These increased facilities will provide a platform for further growth opportunities.

Gearing is a difficult element to assess given the risk-return trade off. Lonsec believes that whilst a conservative approach may be warranted in the current uncertain economic climate, a low risk approach is not always optimum because it can restrict the earning potential of the company.

In comparison to other companies within the agribusiness sector, FEA's gearing in FY2008 is low to moderate.

Figure 4.4 – FEA Net Debt/Equity



*NB: no low bar is displayed as the lowest geared manager in the Lonsec database is 0%.

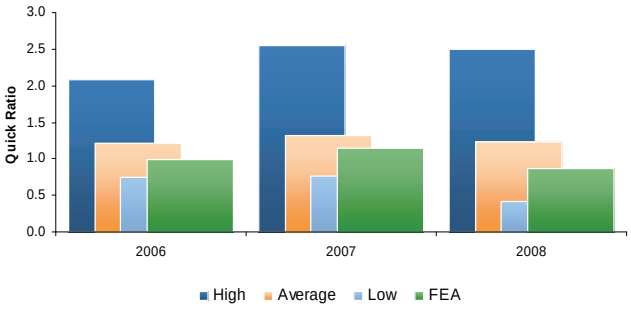
Liquidity

Maintenance of liquidity is a crucial factor for any business, especially for businesses within the agribusiness sector. Typically with a large portion of a company's net assets being locked up in illiquid assets such as land, water and infrastructure, agribusinesses must carefully monitor debt maturities to ensure that liquid assets are sufficient to cover the company's short term obligations.

Compounding the liquidity risk associated with agribusiness, the MIS sector has historically relied on large sales inflows over a short period to fund business operations for the remainder of the year. With general investor sentiment currently at low levels, and the MIS sales prospects difficult to forecast, Lonsec believes that MIS managers must take a cautious approach with financing and liquidity.

Lonsec's analysis of FEA's liquidity is based on the Quick Ratio ((Current Assets – Inventories) / Current Liabilities), which shows that the company is below the Lonsec database average and is under higher risk with regard to meeting short-term obligations (Figure 4.5). At 30 June 2008, FEA had a Quick Ratio of 0.9 times. However, Lonsec is aware that from the half year accounts the liquidity position of the company has improved.

Figure 4.5 – FEA Liquidity (Quick Ratio)



FEA's vertically integrated business model, whereby revenue is generated from plantation establishment and management to timber processing and marketing, diversifies the company's revenue streams. Lonsec believes that this diversification will assist in smoothing off the typically 'lumpy' cashflows characteristic of MIS companies, and will help sustain FEA's financial health in these uncertain economic periods.

Figure 4.6 – Summary of Forest Enterprises Australia Limited Financial Statements – 2005 to 2008

Forest Enterprises Australia Limited	AIFRS	AIFRS	AIFRS	AIFRS
Year ended 30 June	2005	2006	2007	2008
SEGMENT REVENUE ($m)				
Forest Products	22.8	16.9	20.6	39.0
Managed Investment Schemes	44.9	67.5	79.7	106.1
Unallocated revenue	0.8	0.7	1.4	0.8
Reported Revenue	68.5	85.1	101.7	145.8
PROFIT AND LOSS ANALYSIS ($m)				
Lonsec Adjusted Operating Revenue *	63.6	77.7	94.8	137.0
Other Revenue	4.9	3.5	22.5	29.6
SGARA	0.0	4.0	3.0	5.0
Reported Revenue	68.5	85.1	120.3	171.7
Lonsec Adjusted Revenue**	**68.5**	**81.1**	**117.3**	**166.6**
Earnings Before Interest and Tax (EBIT)	22.7	31.1	54.8	71.7
Interest Income	1.9	3.2	3.8	3.7
Borrowing Cost	(0.5)	(1.1)	(2.1)	(4.1)
Reported Profit Before Tax	22.2	30.0	52.7	67.6
Lonsec Adjusted Taxation Expense	(6.6)	(7.9)	(14.5)	(18.0)
Lonsec Adjusted Net Profit After Tax	**15.6**	**18.2**	**35.1**	**44.6**
(before asset revaluations)				
EBIT/Sales Margin	**33%**	**37%**	**46%**	**42%**
Adjusted Return on Equity	**14%**	**11%**	**15%**	**14%**
Interest Cover (Times)	**n/a**	**n/a**	**n/a**	**173.3**
SUMMARY BALANCE SHEET ($m)				
Current Assets	80.2	83.5	133.2	172.2
Non-Current Assets	145.8	214.5	309.5	526.2
Total Assets	**226.0**	**298.0**	**442.8**	**698.3**
Current Liabilities	77.9	80.6	112.8	187.2
Non-Current Liabilities	14.2	31.0	41.8	181.4
Total Liabilities	**92.1**	**111.6**	**154.6**	**368.7**
Net Assets	**133.9**	**186.3**	**288.1**	**329.6**
Working Capital Ratio	**1.03**	**1.04**	**1.18**	**0.92**
Quick Ratio	**1.01**	**1.00**	**1.15**	**0.86**
GEARING ($m)				
Long Term Debt	1.0	11.5	11.8	137.7
Short Term Debt	1.0	1.3	30.4	4.2
Less Cash at Bank	17.9	13.2	42.5	9.9
Net Debt	**(15.9)**	**(0.3)**	**(0.3)**	**131.9**
Net Debt/Equity	**0%**	**0%**	**0%**	**40%**
SUMMARY CASH FLOW ($m)				
Opening Cash	9.8	17.9	13.1	42.5
Operating Cash Flow	20.3	18.8	10.2	66.6
Investment Cash Flow	(39.0)	(55.5)	(101.5)	(184.0)
Financing Cash Flow	26.8	31.9	120.8	84.8
Net Cash Flow	8.1	(4.8)	29.5	(32.6)
Closing Cash	**17.9**	**13.1**	**42.5**	**9.9**

* Reported operating revenue less SGARA and interest revenue
**Reported revenue less SGARA

4.4. Credit Risk Assessment

The Lonsec Agribusiness Credit Risk assessment (Table 4.7) provides a graphical snapshot of a range of key risk measures used to quantitatively and qualitatively identify FEA's relative and comparative exposure to debt, financing counterparties and the overall risk created by financing to future solvency.

Risks are categorised as Low, Moderate or High, based on Lonsec's opinion of the risks inherent in the financing arrangements used by FEA and the agreements between counterparties on both an investor and a corporate level.

These risks, outlined in Table 4.7, identify the relative level of financing risk adopted by the corporate entity in its financing operations and the counterparty risks associated with the parties involved in these transactions. At the project level, this analysis shows Lonsec's opinion of the risk to projects and their Investors created by the Investor financing arrangements and the potential risk to the corporate entity generated by Investor default, Investor loan structures and agreements, and the counterparties associated with the Project/Investor finance arrangements.

Table 4.7 – Credit Risk Assessment

Corporate Credit Risk and Exposure	Risk Level		
	Low	Moderate	High
Short-term Liquidity			
Debt Ratio			
Leverage (Debt/ Equity)			
Counterparty Risk (Credit Risk)			
Project Credit Risk and Exposure	**Low**	**Moderate**	**High**
Counterparty Risk (Credit Risk)			
Project finance structure & securitisation			
Default Risk			

Corporate Credit Risk and Exposure refers to the elements that create financing risk and uncertainty for the corporate entity. This analysis provides the basis for Lonsec's opinion of FEA's risk in relation to the company's level of short and long term gearing, level of liquidity and relevant exposure to counterparty risk with the financing arrangements. The analysis of risk is based on FEA's FY2008 annual report and information provided by FEA.

The Project Credit Risk and Exposure identifies the risk to FEA generated by Investor loan arrangements. The finance terms, associated counterparties, including third party financiers, in addition to rates of default recorded by FEA within other projects, provided a measure of the relative risk associated with the Project finance arrangements.

Lonsec believes the corporate finance facilities available to FEA through their preferred financiers, ANZ and Commonwealth Bank, are satisfactory. Both are reputable banks with 'AA' ratings from Standard & Poor's.
As discussed in section 5 above, FEA's Quick Ratio (measure of liquidity) of 0.9 as at 30 June 2008 suggests that converting the company's current assets to cash to retire its current liabilities if required would be insufficient. This is of some concern to Lonsec given the volatility of the current economic climate. However, from the half year results, Lonsec notes that FEA's liquidity position has improved. Lonsec is confident that, given the company's strong FY2008 performance coupled with a diversified corporate structure and flexible finance facilities, the company should generate sufficient cash to meet its obligations as they fall due.

5. Product Sales and Marketing

5.1. Buyers and Marketing (All Options)

Timber produced in these Projects may be sold to FEA under the Wood Purchase Agreement (see page 23) or to a third party, with FEA holding the first right of refusal.

What strengthens FEA's position as the potential purchaser of the timber is its scale of operations and maturing relationships with end-buyers of woodchips and sawn timber products. FEA and SmartFibre have established relationships with major Japanese trading houses and leading pulp and paper manufacturers throughout Asia. Contract terms and price setting arrangements for woodchips vary between customers and years. Each year woodchip prices are based on the Australian benchmark hardwood chip price (LAHCE).

FEA also have an established sawmill facility which produces a range of construction and high-value timber products. These products are marketed under FEA's brands EcoAsh, EcoAshclear and BassPine.

Lonsec believes that FEA's integration into the timber processing and marketing segments will ultimately benefit Investors in these projects.

5.2. Wood Purchase Agreement (all Options)

The Management Agreement appoints FEA Plantations to market the pulpwood and sawlogs on behalf of the Investors. FEA Plantations then intends to enter into a Wood Purchase Agreement with FEA for the sale of pulpwood and sawlogs supplied from Investors' woodlots. FEA must accept all the saleable wood harvested and delivered in accordance with the harvest plan. However, should an agreement not be reached for any reason, FEA Plantations may accept offers from interested third parties, with FEA holding the first right of refusal.

Determination of Purchase Price

A number of key factors are set out in the Wood Purchase Agreement (WPA) which FEA must account for in the determination of a "fair and reasonable" purchase price. These key factors include:

- The proposed end-use of the wood;
- The price or prices being paid by other bona fide wood processors for wood of the same or similar species, quantity and quality in the state or region where the plantation is located and the price or prices in other states or regions of Australia;
- Customary methods of determining the price of wood of the same or similar species, quantity and quality in other states of Australia;

- The quality of the wood to the extent that it would affect the purpose to which the wood will be put;
- The timing of the commencement of harvesting so that the wood being sold to FEA is harvested and marketed in an orderly way; and
- Relevant information supplied by any party including statistics or indices relevant to wood prices published from time to time by the Australian Bureau of Agricultural and Resource Economics, the Australian Bureau of Statistics or any other government authority or industry body.

The WPA specifies that the purchase price paid to Investors will not be less than the Average Comparative Price. The Average Comparative Price is the average price paid by FEA or other major plantation timber purchasers to other major plantation timber suppliers over the two preceding years for wood of the same or similar species, quality and quantity as the wood in the region or state in which the plantation is located. In determining the Average Comparative Price, FEA Plantations will exclude prices paid for wood where the volume levels are not material or where the terms of the sale were not at arms length.

The RE must not sell the timber for the purchase price until it has had the purchase price independently evaluated and approved by an independent expert.

Lonsec notes that publicly available comparative pricing benchmarks are difficult to establish, particularly for entities that are not participants in the export trade, and where benchmarks are quality and quantity specific. The issue is further complicated by the related party transaction process, with FEA Plantations (a wholly owned subsidiary of FEA) allocated as agent for the Investors' timber products.

FEA Plantations may seek offers from interested third parties. Alternative offers must be presented to FEA which then has one month to agree to the higher price or to refuse the offer. To this extent, Investors will largely be reliant on the transparency of pricing negotiations between FEA Plantations and FEA, and independent advice that the price being offered is fair and reasonable.

Determination of Grade and Quantity

Investors' wood will be graded in accordance with the Harvest Plan and recognised industry standards, as agreed to by FEA Plantations. The WPA states that the quantity of wood purchased must be determined by weight and measured by a weighbridge nominated by FEA. Where it cannot be determined by weight, the quantity will be determined by any other reasonable method used within the forestry industry and agreed to by FEA Plantations.

Floor price mechanism

A detailed description of how the floor prices are determined for Options 1 and 2 is given in the individual Lonsec Project reports.

Ownership and Risk

The WPA states that title and risk in relation to the wood passes to FEA once the trees have been harvested and the wood has been processed into Log Grades as set out in the Harvest Plan.

Pooled Harvest and Distribution of Proceeds

The proceeds from harvesting are determined by the prevailing quality, quantity and price of the Investors' timber at harvest, under each option. Proceeds will be pooled collectively for all Investors who have contributed to returns in that option, and distributed pro-rata to the number of woodlots held in a respective project.

With woodlots established over multiple properties located across Tasmania, NSW and Queensland, Individual Investors will be protected from events which reduce the yield or quality from their individual Woodlot(s). Once pooled, net harvest proceeds are then subject to applicable fees including the deferred Land Sourcing and Management fees.

Proceeds from harvesting are determined by the prevailing quality, quantity and price of the timber at harvest, under each Option. Proceeds will be pooled collectively for all Investors who have contributed to returns in that Option, applicable fees will be extracted, then Net Proceeds will be distributed pro-rata to the number of woodlots held by an Investor in a respective Option.

Proceeds from harvesting are determined by the prevailing quality, quantity and price of the Investors' timber at harvest, under each option. Proceeds will be pooled collectively for all Investors who have contributed to returns in that option, and distributed pro-rata to the number of woodlots held in a respective project.

Option 3

With woodlots established over multiple properties located across Tasmania, NSW and Queensland, Individual Investors will be protected from events which reduce the yield or quality from their individual Woodlot(s). Once pooled, net harvest proceeds are subject to applicable fees including the deferred Land Sourcing and Management fees (plus applicable GST).

Option 4

It is anticipated that African mahogany will be harvested primarily for sawlogs and sold as rough sawn timber into domestic and export markets. However, FEA has experience in value-adding plantation timber. While African mahogany plantations are maturing, FEA's timber processing and marketing divisions will explore and aim to develop a range of product and market opportunities to maximise the potential value of investors' thinnings and clearfall harvest returns.

Lonsec believes that a 'market pull', rather than 'production push', should drive investment into new products. To this end, the supply and demand fundamentals of the appearance grade timber sector provides confidence that FEA will be able to secure timber supply and price agreements that will benefit Investors nearer to harvest. Due to the long term (18 years) until harvest it is not expected that these arrangement would be formulated until the plantation is well established.

6. Forestry

6.1. Lonsec Consultant Forester Report

Lonsec has commissioned Lonsec Consultant Forester Reports to provide reviews of the forestry aspects of the various Options in the FEA Plantations Project 2009. These will be listed collectively for common remarks and individually for remarks specific to the Options.

Extracts from the reports prepared by Lonsec's Consultant Foresters are reproduced below. Lonsec recommends that prospective investors read these extracts from the report before making a decision to invest in any of the Options in the FEA Plantations Project 2009.

Lonsec also refers investors to FEA Plantation's Independent Forester's Report. A summary of the report is reproduced in the PDS in section 11 and a copy of the full report is available from the FEA website or fromFEA upon request.

Specific quotations from the Lonsec Consultant Foresters' Reports are identified against the light green background.

6.2. Overview by Lonsec Consultant Forester

Option 1&2

Investors are invited to invest in 0.5 hectare woodlots in one or both of the following options:

- ***Option 1*** which aims to produce eucalypt pulpwood logs for conversion into woodchips, but which is also expected to produce about one third of the total volume and 45% of the final harvest volume as unpruned sawlogs suitable for conversion into sawn timber. It is proposed to run for 14 years. A commercial thinning will be undertaken at about age 9.
- ***Option 2*****,** which aims predominantly to produce knot-free eucalypt sawlogs (and other high value products) from pruned trees, and will also produce lower quality sawlogs and a pulpwood component from thinnings. These stands will also be thinned at about age 9. Final felling is scheduled for age 16 (corresponding to Project year 17).

Four hardwood tree species are to be planted in three regions in Options 1 and 2.

- *Eucalyptus nitens* (shining gum or "nitens") will be planted in Tasmania and in the southern tablelands region (south-east of Walcha) of NSW;
- In northern coastal NSW and southern Queensland *E dunnii* (Dunn's white gum or "dunnii"), *Corymbia citriodora variety variegata* ("CCV" or "spotted gum") and *E saligna* (Sydney blue gum) will be planted.

FEA advises that in NSW and Queensland they will continue to plant very small areas (where the site is appropriate) with blackbutt (*E pilularis*) and will continue to establish trial plots of other promising species.

Option 3

No overview

Option 4

Investors are invited to purchase woodlots (each 0.2ha) of African mahogany (*Khaya senegalensis*) to be established by FEA in the Douglas Daly region. The plantations will be thinned on two occasions, trees will be pruned, and a final felling made for the production of sawlogs at 18 years of age. FEA expect to be able to develop commercial markets for thinnings during the life of the Project, and propose to construct a sawmill which will purchase the logs from thinnings and final harvest of the plantation. Alternatively, logs will be exported through the port of Darwin.

The Project incorporates a Wood Purchase Agreement designed to ensure that Investors' wood is sold after harvest, and that they obtain a "fair and reasonable" price for the timber.

The property acquired in the Douglas Daly region is approximately 200 kms south of Darwin and is in a relatively remote area without sophisticated social or technical infrastructure. The property has basic infrastructure and poor quality internal roads and uncertain wet season access. However, FEA has inherited an area on which African mahogany plantations have already been established in the last two years, and has acquired a forester to oversee operations who was previously involved in the establishment of these plantations.

6.3. Operational Management

Options 1&2

FEA is managing complex forest growing, harvesting, timber processing and marketing operations in three States in eastern Australia. Sustainable commercial success demands high standards of corporate governance, strategic planning, field operations, technical services, administration and marketing and for a high level of leadership to keep the whole operation moving forward positively.

The Lonsec Consultant Forester is satisfied that FEA have the staff to meet these demands. FEA has a high level of professional leadership. CEO Andrew White is a forester by training, and has wide experience in the timber industry and in the business world. The company's Director of Forestry Services and the Chairman of the Responsible Entity for the Project is Tony Cannon, one of Australia's most experienced and respected plantation foresters. The General Manager of Plantations is Chris Barnes, an agronomist by training who has extensive experience in forest research and operations and in project management. He is supported by a cadre of capable and experienced field foresters, and a good blend of

older experienced and youthful energetic staff.

The Lonsec Consultant Forester is impressed with the high level of esprit de corps and the determination to do a good job amongst FEA personnel. The recent appointment of a full time research scientist and the imminent appointment of a second researcher were noted with approval.

FEA has an objective of becoming the national leader in hardwood plantation forestry and processing, and see the company as complying with World's Best Practice in these fields. To achieve this, it will be desirable for their senior forestry staff to familiarise themselves with leading operations overseas during the next 5 years.

Option 3

The Lonsec Consultant Forester is satisfied that FEA has the staff to meet these demands.

Currently FEA has a high quality and dedicated team responsible for forestry operations, with a good blend of older experienced and energetic younger men and women. The consultant was impressed with the high level of *esprit de corps* and the determination to do a good job amongst FEA field personnel. The organisation has grown rapidly in the last two years and is set to expand further. It remains to be seen whether corporate governance and administrative systems have developed sufficiently to keep ahead of developments in the field.

Option 4

This project is part of FEA's 17th consecutive MIS forestry project. This demonstrates FEA's capacity to successfully develop and implement forestry projects. Potential investors can also be reassured by the fact that FEA completed the harvest of its 1993 eucalypt Project during 2008, providing returns that exceeded expectations.

As with previous projects, FEA intends to carry out the forestry operations in the field for the 2009 Project utilising its forestry staff located in the NT, supported by staff in NSW and Tasmania, and using contractors for various roles, under the direction of the Head Office in Launceston, Tasmania, and the forestry leadership of the principal field office in Lismore, NSW.

The development and intended management of the project, as outlined by FEA is as follows:

- FEA has acquired freehold land in the Douglas Daly region of the NT. Approximately 500 hectares of this area is suitable and available for planting with African mahogany seedlings as part of this Project. FEA are currently negotiating the lease of further suitable land in the region.

- African mahogany seed has been acquired from Africa and two nurseries have been contracted to grow the seedlings. FEA's own nursery on site will be used as a holding nursery during the planting season.

- Seed from different sources will be bulked, so that different provenances and genetic stock are well mixed throughout the plantation. In the absence of genetically improved seed, this will ensure there will be a wide genetic range from which final crop trees can be selected.

- Planting sites will be prepared using standard forestry procedures, including weed control, cultivation, drainage and fertilising.
- Weed control will be carried out to reduce the competition of weeds to the young trees, and to reduce the fire hazard.
- The African mahogany will be established in pure stands at a stocking rate of about 1,200 trees per hectare. A commercial thinnings is proposed at about age 11 which will reduce the stocking to about 350 trees per ha, these being the "final crop trees".
- Trees will be pruned up to three times with the aim of achieving greater then 6 metres of knot-free timber in the final crop trees.
- The plantation may be refertilised during the rotation, if required, or may be grazed to reduce the fire hazard.
- Roads and firebreaks will be installed and later maintained around and through the plantation to provide access for planting, weed control, fire control.
- Prescribed burning of surrounding areas will be undertaken from time to time to reduce fuels and fire hazards.

- The plantation will be clear felled at age 18 to produce logs for processing at a sawmill or export.

Operational Management Staff

With the commencement of this Project FEA will be managing complex forest growing, harvesting, timber processing and marketing operations in three States in eastern Australia and the Northern Territory. To achieve commercial success they will need to ensure high standards of corporate governance, strategic planning, field operations, technical services, administration and marketing. A high level of leadership will be needed to keep the whole operation moving forward positively.

The Lonsec Consultant Forester considers that FEA have the staff to meet these demands, but that this new operation in the Northern Territory will demand significant new management input. In tropical forestry, timing of operations is critical, especially weed control, and there are many unknowns which demand research input. FEA have one forester at present at the Douglas Daly. The Lonsec Consultant Forester considers that this will be inadequate by late 2009, when work on the establishment of this project will be reaching a critical stage. At that time, FEA will either need to make an additional appointment to the Douglas Daly operations, or arrange a temporary transfer of a forester from elsewhere in their operations. There is also a need for FEA to develop its own research capability and to enter into collaborative arrangements with other organisations to meet research needs relating to African mahogany genetics, silviculture and nutrition (an approach FEA has already commenced)

6.4. Project review

Project reviews by the Consultant Forester are divided into the following sections:

- Assessment of species to be planted
- Summary of proposed Project planting matrix
- Critical operational factors
- Conclusions

These will be treated in a bloc for each Option, to preserve a coherent view of each.

Options 1&2

Assessment of species to be planted (Options 1&2)

The following table summarises the situation with respect to the tree species to be used by FEA in these Projects:

Species	Common name	Strengths	Weaknesses	Comments
E. nitens	Shining gum	Valuable tree with high commercial value, genetically improved material available; long experience with plantation silviculture and timber utilisation in Tasmania.	No major weakness when planted in Tas. The silviculture, nutrition and pest management of the provenances to be planted in NSW is still evolving.	A proven species, with versatile timber, suitable for pulp and paper manufacture and high quality sawn timber
E dunnii	Dunn's white gum	Prospectively a desirable hardwood plantation species, with high early growth rate; frost tolerant. Wood has good fibre qualities for pulp and paper manufacture.	Susceptible to a range of insect pests (esp Psyllids); more research required into genetics, nutrition and, growth patterns. Sawing technology still in the trial stage	Early plantation performance is promising where defoliating insects controlled. There are no mature plantations on which to judge actual outcomes/returns.
*CCV**	Spotted gum	A tough tree with excellent timber, and a high degree of acceptability in the sawmilling and timber-using industries.	Difficult to grow in plantations. Susceptible to a fungal pest which deforms the stem and reduces growth rates; knowledge about genetics, nutrition and growth patterns still evolving. Good quality pulp, but not widely used at this stage for pulp and paper manufacture.	Performance is dependent on availability of a resistant variety or provenance, and proper management of stands to reduce the risks of fungal attack. Existing plantations are generally not promising.
E saligna	Sydney blue gum	A fast growing tree with excellent timber, including red heartwood. Very resistant to pests.	Experience of growing this species in commercial plantations in NSW is evolving, and only limited good quality genetically improved seed is available.	Should perform well, and provides a FEA with a strong back-up species for *E dunnii* and a potential replacement species for CCV

** CCV = Corymbia citriodora variety variegata.*

Summary of proposed Project planting matrix (Option 1&2)

FEA advise that the following table represents the proposed distribution of planting in terms of options, species and localities for Options 1 and 2 of the FEA Plantations Project 2009:

Location/Option	Option 1	Area (ha)	Option 2	Area (ha)
Northern Tasmania	*E nitens*	2,500	*E nitens*	1,000
Southern Tasmania	*E nitens*	750	*E nitens*	200
Armidale/Walcha	*E nitens*	3000		
Grafton	*E saligna*	1,850	*E saligna*	150
	E dunnii	950		
	CCV	150		
NSW/Qld border	*E saligna*	2,100	*E saligna*	250
	E dunnii	900		
	CCV	200		
Total		**12,400**		**1,600**

Critical operational factors (Option 1&2)

Twelve critical factors need to be satisfied if this project is to be a success in terms of a commercial plantation project. These are listed, together with the consultant's comments on the degree to which they are recognised and will be dealt with in this project by FEA in Table 6.1.

Table 6.1a – Summary of critical factors and comment on FEA's proposal (Options 1&2)

Factor	Consultant's comments
The site selected must be suitable for the species to be planted.	Land in both Tasmania and NSW/Queensland which has been recently acquired by FEA including some land likely to be used for the 2009 Project appear to be suitable. The Lonsec Consultant Forester has reviewed FEA's land acquisition protocol and this was found to be sound. Staff responsible for land acquisition on the mainland were found to be competent and responsible, and the sites inspected reflected their competence.
The right species must be planted for the sites, and these should have timber qualities which match intended end use.	All of the species to be planted by will be matched to the correct sites, as far as possible. Species characteristics are summarised above.
Environmental and legal approvals must be in place, and conditions built into all forestry prescriptions, and a control system put in place.	Approvals processes are well understood by FEA and have been implemented in the past without problem. FEA's environmental management system is accredited under ISO14001 and the woodchip export business meets the Controlled Wood Standards of the FSC. All eucalypt plantation operations are certified under the Australian Forestry Standard. FEA is aware of the need to meet legal requirements, and has put in place a sophisticated planning system.
Genetically improved seed of a known and suitable provenance must be used.	FEA is using the highest quality genetically improved seed for *E nitens* and *E dunnii* that they can acquire. In the case of nitens, this is good quality, seed orchard seed, including seed of the Northern Provenance for planting in NSW. At this stage good quality genetically improved seed is not available for spotted gum or Sydney blue gum. In the case of spotted gum they advise they will be using the Richmond Range provenance as this is less susceptible to Quambalaria attack. FEA has its own *E nitens* seed orchards established in Tasmania and NSW. Some seed from the former will be available for part of the 2009 project.

A capable nursery must be used to produce quality seedlings.	FEA uses several contract nurseries. One of these has been inspected and found it to be excellent. The Lonsec Consultant Forester also inspected seedlings in other areas planted as part of the 2007 Project and generally found them to be of a good standard.
Planning, site preparation and follow-up is required to ensure efficient and successful establishment.	FEA employs a well-tried methodology of site preparation, involving 'clean-up', access roads, initial weed control, ripping and mounding or spot cultivation for 2nd rotation sites, secondary weed control and planting. Follow-up survival counts and replanting is carried out to meet an objective of 90% survival at age 1.
Effective weed control is essential.	This is understood by FEA, but it is not always possible in NSW/Qld where adverse weather conditions (heavy summer rain) can delay operations. Close attention is needed to this aspect of the work, a need recognised by FEA.
Nutrition must be managed across the rotation.	Nutritional management on the sites being used in this Project in Tasmania is not as critical as for some plantation projects elsewhere in Australia, as the sites being planted are fertile. Sites in NSW/Queensland will require additional fertiliser during the rotation; monitoring and further research are essential. FEA have established some fertiliser trials on their earlier plantations and have demonstrated that they will use fertiliser when required. They advise that they are well aware of the linkage between good nutrition and pest resistance. The recent appointment of a dedicated researcher to work on nutritional management in NSW, and the imminent appointment of a second to work on the interaction between weeds, fertiliser and tree health are applauded.
Pest management.	All of the eucalypts to be used in this project are subject to insect and fungal pests although Sydney blue gum has shown no problems to date. *E nitens* in Tasmania can suffer from infestation with Chrysomelid beetles and nitens in NSW suffers from infection with the *Mycosphaerella* fungus. Dunnii in NSW/Queensland is also seriously attacked by Psyllids and CCV by the fungus *Quambalaria*. Dunii can also be attacked by the Giant Wood Moth, especially if the trees are already weakened by Psyllid attack. Chrysomelids and Psyllids can be controlled by aerial spraying with pesticides. In the case of dunnii, this is essential. Operations need to be timely, and good monitoring is essential. FEA has evolved adequate systems for monitoring and control operations over the last three years, and this has lessened a potentially project-threatening risk. They are also increasingly using *E saligna* in place of *E dunnii* and CCV as saligna is significantly more pest-resistant.
Bushfire management.	Bushfire management is required for all plantations in Australia. Although the climate in NSW/Queensland and northern Tasmania is less conducive to frequent fires, fires can still occur. In Tasmania FEA has extensive experience in bushfire management and has cooperative arrangements in place with other forestry organisations and bushfire brigades. All FEA field staff are trained to basic competencies as firefighters. In Queensland and northern NSW the company is also using cattle to graze fuels in the older plantations, to good effect. A critical time will be immediately after pulpwood thinning, when fuel loads within the plantations will be high. There is nothing that can be done to ameliorate this, and the need for Investors to have insurance is supported.
Research and inventory systems must parallel operational work.	FEA has a sound inventory program in place in Tasmania and has an inventory specialist developing new systems for NSW/Qld. This work is critical. Until recently FEA has not developed its own forestry research arm, but has relied upon a consultant to undertake genetics research with *E nitens*, and collaborative arrangements with external agencies and CRCs to carry out research. FEA have now acquired in-house research capability into genetics, silviculture and nutrition (especially in NSW). The next critical step for them will be to prepare a research plan setting out priorities and budgets. This needs to be done in 2009. FEA also have a dedicated researcher working on timber properties and processing and a timber technology laboratory at Bell Bay.

Organisational capability.	FEA has a combination of professional skills and youthful energy, supported by an experienced board. The Lonsec Consultant Forester feel confident they will be able to take this project through to maturity and to provide the supporting systems around it to ensure it works. They have significantly built up their managerial and forestry staff and supporting systems (including processing and marketing) in NSW/Queensland. The most critical element will be the ability over time to manage a widely dispersed estate and to maintain standards across a wide area – a problem which is faced by most expanding Australian plantation companies.

Conclusions (Options 1&2)

This review of the FEA Plantations 2009 Project and the recent inspection of operations in Tasmania and NSW/Queensland have led to the following conclusions:

1. FEA is a small, but expanding forestry company, and has earned a respected place in the Australian forestry and timber industry. The Lonsec Consultant Forester regards them as a responsible and professional forestry organisation, with the added advantage of being vertically integrated and well established into processing and export. The Lonsec Consultant Forester is confident their field staff will do their best to make this project a success, and approves of the fact that there is a system in place for internal audit via FEA Plantations.

2. FEA's operations in Tasmania are very settled, and in recent years have produced excellent plantations. Apart from minor reservations about the yields in pruned stands, this operation has no risks beyond the capacity of FEA's foresters to overcome.

3. After a slow start in the years 2001-3, FEA has made significant advances in management of the mainland operations, and is already addressing critical processing and marketing arrangements. However, refinements are still needed to their plantation operations in this region. There are three key issues which need urgent attention:

   (i) Genetics and nutrition for *E nitens* in NSW;
   (ii) Obtaining genetically improved seed for *E saligna*
   (iii) The proportion of plantings in NSW of *E dunnii* and CCV relative to the other species.

4. FEA's developments in processing small sawlogs are impressive. They have a good product, well presented, and capable of being further refined in the light of FEA's timber engineering research. FEA has evolved a neatly integrated system from stump to marketplace, where value is being added and waste minimised at each step. Investors in this project will benefit from this if, as anticipated, a higher volume of sawlogs are recovered than currently projected and higher stumpage prices eventuate.

5. The projected yields for the 2009 Project plantings in Tasmania may be marginally optimistic but are not unrealistic for stands being grown on to age 13 and 16 (to be harvested in project years 14 and 17). Yields cannot be verified for NSW/Queensland yet as there is insufficient supporting data. To achieve projected yields across the whole project, it will be necessary for the NSW/Queensland plantations to perform well, and this in turn will call for intensive control of weeds and pests and improved nutritional management.

5. The estimates of projected stumpages and of sawlog margin are considered to be marginally conservative.

6. FEA has enlarged its field staff over the last three years, and has recently appointed a research scientist to work in NSW/Qld. On the whole, staff numbers now appear to balance workload with one exception. This is on the NSW tablelands, where there is only one man, and the estate is expanding dramatically. An additional forester will be required here by late 2009.

7. In order to keep abreast of world's best practice in eucalypt plantation establishment and management, it is essential that FEA's senior forestry staff study operations in some key overseas areas in South America and South Africa.

The Lonsec Consultant Forester concludes that the project can be supported from a forestry viewpoint.

Critical operational factors (Option 3)

Twelve critical factors need to be satisfied if this project is to be a success in terms of a commercial plantation project. These are listed together with the consultant's comments on the degree to which they are recognised and will be dealt with in this project by FEA in Table 7.2.

Table 6.1b – Summary of critical factors and comment on FEA's proposal (Option 3)

Factor	Consultant's comments
The site selected must be suitable for the species to be planted	Land in Tasmania similar to that acquired by FEA in the past and likely to be acquired in the future was inspected, including some land likely to be used for the 2009 Project and found to be suitable for radiata pine.
The right species must be planted for the sites, and these should have timber qualities which match intended end use.	Radiata pine is a suitable species, with excellent timber qualities.
Environmental and legal approvals must be in place, and conditions built into all forestry prescriptions, and a control system put in place.	Approvals processes are well understood by FEA and have been implemented in the past without any problems. FEA's environmental management system is accredited under ISO14001 and the woodchip export business meets the Controlled Wood Standards of the FSC. All their radiata pine plantation operations are certified under the Australian Forestry Standard
Genetically improved seed of a known and suitable provenance must be used.	FEA is using the highest quality genetically improved seed for radiata pine.
A capable nursery must be used to produce quality seedlings.	FEA uses several contract nurseries. One of these has been inspected on a previous visit to Tasmania and found it to be excellent. The Lonsec Consultant Forester also inspected seedlings planted in 2008, and although these were small, they were healthy and should develop satisfactorily.
Planning, site preparation and follow-up is required to ensure efficient and successful establishment.	FEA employs a well-tried methodology of site preparation, involving 'clean-up', access roads, initial weed control, ripping and mounding or spot cultivation, secondary weed control and planting. Follow-up survival counts and replanting is carried out to meet an objective of 90% survival at age 1.
Effective weed control is essential	This is understood by FEA, and operations in Tasmania are straight-forward.
Nutrition must be managed across the rotation.	The nutritional requirements for radiata pine in Tasmania are well-known following decades of experience. FEA should have no problems in monitoring the nutritional status of the plantations established in this Project, and applying fertiliser as required.
Effective pest management protocols must be in place.	Radiata pine suffers from few pest problems, especially if a high level of nutrition is maintained, but is potentially susceptible to several pest problems. It will be essential that FEA maintain good surveillance, a requirement they understand, and are able to take remedial action where necessary.
Bushfire management.	Bushfire management is required for all plantations in Australia. Although the climate in northern Tasmania is less conducive to frequent fires, fires can still occur. FEA has extensive experience in bushfire management and has cooperative arrangements in place with other forestry organisations and bushfire brigades. All FEA field staff are trained to basic competencies as firefighters. Nevertheless the risk of fire damage to radiata pine plantations remains (especially those which will be unpruned as is the case with this project), and Investors are advised to take out insurance.
Research and inventory systems must parallel operational work.	FEA has a sound inventory program in place in Tasmania. Until recently FEA has not developed its own forestry research arm, but has relied upon consultants and collaborative arrangements with external agencies and CRCs to carry out research. This approach is considered appropriate for radiata pine, where there are decades of excellent research underpinning all aspects of operations.
Organisational capability	FEA has a combination of professional skills and youthful energy, supported by an experienced Board. The Lonsec Consultant Forester feels confident the company will be able to take this project through to maturity and to provide the supporting systems around it to ensure it works.

Conclusions (Option 3)

This review of the FEA Plantations Project 2009 – Option 3 and the recent inspection of operations in Tasmania has led to the following conclusions:

- FEA is a respected participant in the Australian forestry and timber industry. The Lonsec Consultant Forester regards them as a responsible and professional forestry organisation, with the added advantage of being vertically integrated and well established into processing and export. The business is in a period of rapid expansion, and this will test management and administrative systems, an aspect for which Lonsec needs to continue to have a watching brief.
- The Lonsec Consultant Forester is confident that FEA's forestry staff in the field have the expertise and experience to make this project a success and to meet the projected costs, yields and returns.
- FEA has a neatly integrated forestry and timber system from stump to marketplace, where value is being added and waste minimised at each step. Investors in this project will benefit from this as it will maximise stumpage values.
- The two principal risks for this Project are bushfire damage and drought. To some extent the first can be minimised, and growers can take out insurance; drought cannot be predicted or its impact mitigated. If current drought conditions in south-eastern Australia persist, yields from this Project will be reduced.
- If FEA decide to locate part of this project in NSW, it will be desirable for Lonsec to assure itself that appropriate land has been acquired and that FEA have the management and staff capability to carry out the project at this new location.

The Lonsec Consultant Forester concludes that the project can be supported from a forestry viewpoint.

Option 4

The Lonsec Consultant Forester visited the FEA property in Northern Territory before preparing this report, inspected areas proposed for planting, and met FEA staff. At this time there are no FEA operations on which to comment.

Project review

12 critical factors need to be satisfied if this project is to be a success in terms of a commercial plantation project. These are listed, together with the consultant's comments on the degree to which they are recognised and will be dealt with in this project by FEA in Table 6.1.

Table 6.1c – Summary of critical factors and comment on FEA's proposal (Option 4)

Factor	Consultant's comments
The site selected must be suitable for the species to be planted.	The land on the property acquired by FEA is suitable for a commercial plantation of African mahogany.
The right species must be planted for the sites, and these should have timber qualities which match intended end use.	African mahogany is a fine species with high value timber.
Environmental and legal approvals must be in place, and conditions built into all forestry prescriptions, and a control system put in place	No special approvals are required for forestry operations in this area, other than confirmation from the NT government that scrub can be removed from areas previously cleared. FEA advise that they intend to achieve accreditation to ISO14001 by the middle of 2009, i.e. before this Project is established.
Genetically improved seed of a known and suitable provenance must be used.	FEA will be using the best available African mahogany seed, but this is not genetically improved through tree breeding. As a result the plantation is likely to lack uniformity.

A capable nursery must be used to produce quality seedlings	FEA will use two contract nurseries. One of these has been inspected and found it to be excellent. It will be essential that FEA monitor seedling development and health in the nurseries during 2009.
Planning, site preparation and follow-up is required to ensure efficient and successful establishment	FEA will employ standard methodology of site preparation, involving 'clean-up', access roads, initial weed control, cultivation, follow-up weed control and planting. Follow-up survival counts and replanting will be carried out to meet an objective of 90% survival at age 1.
Effective weed control is essential	This is understood by FEA, but this is a difficult task in the wet season where heavy summer rain can delay operations. Close attention is needed to this aspect of the work on a day-to-day basis, plus a readiness to use helicopters for weed spraying when soil conditions are too wet for ground application.
Nutrition must be managed across the rotation.	The nutritional requirements for African mahogany on these soils are not fully understood. FEA propose to establish a trial area early in 2009 and undertake nutritional trials, but these are unlikely to provide definitive answers by the time the 2009 Project is planted. In the meantime, FEA will be applying a non-specific fertiliser regime, and until the research is completed, this is all they can do.
Pest management	Well managed African mahogany is relatively free of pests, but all tropical species can suffer pest damage from time to time. Feral buffaloes roam the area and will graze young seedlings if fences and shooting programs are not maintained. The most serious pest is the giant Termite *Mastotermes darwiniensis*. It will be absolutely critical for the success of the Project that FEA apply a systematic approach to minimising the impact of this insect pest.
Bushfire management	Bushfire management is required for all plantations in Australia, including those in the Douglas Daly region. FEA consider that their weed control program will provide plantation protection in the first two-to-three years, and they currently have fire equipment on site. They will need to continue to carry out fuel reduction in and around the plantations, and to maintaining collaborative arrangements with contractors and other land owners in the district, including the neighboring plantations companies.
Research and inventory systems must parallel operational work.	FEA has a sound inventory program in place in Tasmania and NSW/Qld and has the in-house capability to develop biometric models for African mahogany. FEA has already begun collaborative arrangements on the development of basic measurement systems, including growth and yield tables. FEA is already undertaking early genetics research for African mahogany and propose to install nutritional trials early in 2009. The development of collaborative arrangements with other African mahogany growers has commenced.
Organisational capability	FEA has a combination of professional skills and youthful energy, supported by an experienced Board. They should be able to take this project through to maturity and to provide the supporting systems around it to ensure it works. The most critical aspect will be to ensure they can maintain experienced staff on the ground in the Northern Territory, so as to ensure intensive day-to-day management of the plantations, especially weed and pest control.

Conclusions (Option 4)

This review of the FEA African mahogany 2009 Project and the recent inspection of the property where operations will occur, and meetings with FEA staff have led to the following conclusions:

- FEA is an expanding forestry company, and has earned a respected place in the Australian forestry and timber industry. The Lonsec Consultant Forester regards them as a responsible and professional forestry organisation, with the added advantage of being vertically integrated and well established into processing and export.
- However, this is FEA's first venture into growing African mahogany in the Northern Territory and they face new challenges, in particular weed and pest management in a remote area. The project will only succeed if FEA is able to maintain trained and competent staff on the ground throughout the rotation and provide an intensive level of management.
- The projected yield appears to be reasonable, but will only be achieved under intensive management.
- FEA will be able to bring to bear their extensive experience in sawmilling, timber utilization and marketing at the culmination of this Project, to the advantage of the investor.

The Lonsec Consultant Forester concludes that the project can be supported from a forestry viewpoint provided FEA ensure adequate numbers of field staff, are prepared to invest in research and ensure there is a high level of quality control of establishment and maintenance by senior management.

7. Risk and Risk Management

7.1. Lonsec Risk Assessment

Investors must be aware that an investment in these projects entails risks inherent to all long term commercial forestry projects, risks particular to *Eucalypt* plantations, financial risks and other risks. The PDS outlines in Section 8 a range of risks specific to the Projects and FEA Plantations management procedures in dealing with these risks. Investors should read and understand these issues before investing in either of these Projects.

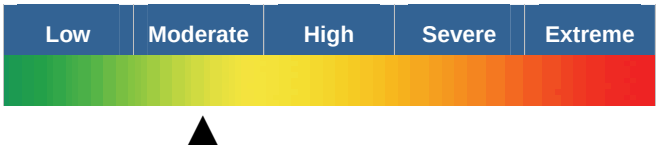
The Lonsec analysis of risks aims to assess the degree of Project risks within five categories from Low to Extreme.

The formulation of the overall risk category is a combination of analysis including:

- Lonsec Determinant Ratings Analysis - incorporating qualitative and quantitative assessment criteria.
- Lonsec Consultant Forester's Opinion – detailing specific risks associated with forestry operations.
- Risk Profile Table - includes an assessment of the likelihood, consequence, and management of risks.
- PDS and Project Expert Reports – a review of the information provided by project management.

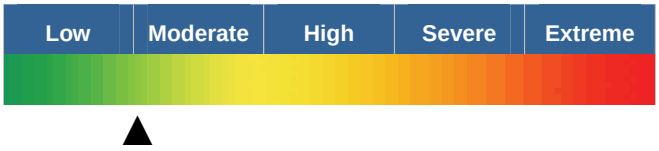
Options 1&2

Lonsec has rated both Option 1 and Option 2 of the FEA Plantations Project 2009 in the "**Moderate**" risk category.



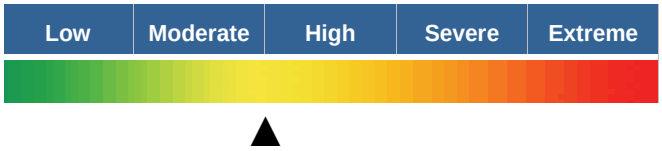
Option 3

Lonsec has rated Option 3 of FEA Plantations Project 2009 in the "**Low to Moderate**" risk category.



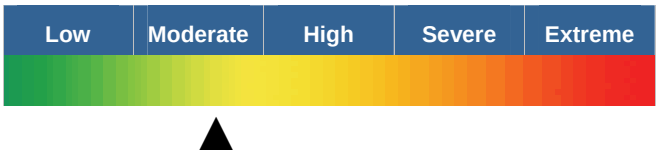
Option 4

Lonsec has rated the FEA Plantations Project 2009 – Option 4 in the **"Moderate- High**" risk category**.**



Option 5

Recognising the diversification benefits of the Project, Lonsec has rated Option 5 of the FEA Plantations Project 2009 in the "Moderate" risk category.



7.2. Principal Forestry Risks

The Lonsec Consultant Forester's comments on risks and risk management for the various Options are as follows:

Options 1&2

The principal risks associated with growing commercial eucalypt plantations in Tasmania and NSW/Queensland are discussed below in relation to the FEA Plantations Project 2009 (Options 1&2).

Weed and pest management in the tropics

Failed weed and pest control in the plantations on the mainland are the most serious threats to the project. Pest problems include Psyllid attack on *E dunnii;* tip malformation of CCV by *Quambalaria* and the loss of juvenile foliage of *E nitens* in NSW through infection by the *Mycosphaerella* fungus. The Lonsec Consultant Forester notes the risk management measures being taken by FEA in respect to these issues:

(i) FEA has demonstrated a willingness to take control action when Psyllids become apparent within dunnii plantations. The work is costly, but it ensures a successful plantation;

(ii) FEA is reducing the use of spotted gum, as no practical or effective measures for controlling *Quambalaria* have yet emerged in Australian forestry, but at the same time are using the most resistant provenance available and

are contributing to research on the problem; and

(iii) FEA has swapped from using the southern provenance of nitens in NSW to using the northern provenance, and has instituted research into the nutrition of this species.

These measures are sound and are supported.
The technology of weed management is well known, and FEA has been a leader in this area. The key requirement is for timely action, using established methodology. The task is great and on-going, but the Lonsec Consulting Forester has confidence that FEA is aware that failed weed control means a failed project, and that they have the determination and technical capability to achieve a good result.

Grazing of newly planted seedlings by native animals is a problem in Tasmania and some parts of NSW. FEA has developed measures to minimise this problem, and these are successful if the pressure is kept up. Failure to control grazing will lead to project-failure.

Fire

The risk of fire in plantations is ever present, and is recognised by FEA. There is a requirement to ensure their plantations are responsibly provided with firebreaks and that staff are well trained, and have developed or are developing a fire response capability. The Lonsec Consultant Forester believes that FEA is well prepared in Tasmania and will be able to handle everything apart from a regional bushfire disaster (of which there has been only one in Tasmania in the last 50 years). The situation is more complex in NSW/Queensland, where the plantation estate is highly fragmented and scattered over hundreds of kilometres, but the climate is less inductive to bushfires. Fragmentation has the advantage of reducing the risk of a single fire causing extensive damage, but the disadvantage of increasing the time and effectiveness of response to a new fire. The key requirement here is therefore fuel management within the plantation to mitigate potential fire damage. FEA have been using cattle grazing for this purpose in most plantations and this is effective in reducing grassy fuels. This should become routine.
Nevertheless it will be prudent for Investors in this project to take out fire insurance, as no guarantee of freedom from fire can ever be given and, if computer climate models are correct, conditions will become warmer and drier during the life of this Project.

Projected yields and product matrix

FEA is able to confidently predict yields and product mix for Option 1 and Option 2 schemes with *E nitens* in Tasmania. The Lonsec Consultant Forester has reviewed the FEA inventory methodology and the yield data being produced. Both are credible.

There is a risk that in Option 2 stands there will be a loss in dominance of pruned trees where pruning is done in advance of thinning. FEA will be pruning 450 Final Crop trees per hectare at about ages 2-6 within a stand carrying 1200 trees to the hectare, but thinning is not scheduled until age 9. Where pruning takes off live branches and more than half the live crown is removed at any time, the growth rate of the pruned trees will decline relative to neighbouring unpruned trees. FEA advises that pruning will be carried out by experienced contractors, and will be well supervised and they do not expect these problems to arise. The Lonsec Consulting Forester expects that the problem will arise, and that in these stands yields will be reduced.

Project yields and product mix for stands grown in NSW/Qld are not yet supported by actual data from mature plantations. FEA is still in the process of developing growth models for these species and these sites, but is working collaboratively with other organisations, and expect that good data will be available in 3-4 years. Early inventory of NSW/Qld plantations (post-2003 planting) demonstrates that yield expectations are likely to be achieved, provided weed and pest control is effective and site-matched nutritional management programs can be developed. The use of the northern provenance of nitens is also seen as imperative. It is noted that FEA now has a full time researcher looking at these issues.

Political issues

There is a negative attitude toward plantation managers amongst some Tasmanian environmentalists. This is based on two main concerns: the need to control native browsing species at the time of plantation establishment to ensure the new tree seedlings survive, and conversion of native forests to plantations.

The main browsers in Tasmania are possums and two species of wallaby. If they are not controlled, they move into the plantations and eat the newly planted seedlings, destroying the plantation. They are controlled mainly by shooting, poisoning or trapping. This is needed for about one year after planting, after which the small trees become tall enough to escape browsing, and control operations cease.

Concerns about animal control are not warranted. The possum and wallaby species are abundant and their numbers recover quickly when control measures cease. Furthermore, FEA has developed a form of seedling “guard” which is already proving effective, and there are research programs leading to a reduced need for control in the future (including planting for this Project).

FEA will in some cases in Tasmania be clearing native forest on private property which they have purchased, and establishing new plantations on the cleared area. This is permitted under Tasmanian law, provided all environmental regulations are observed.

Option 3

Fire

The risk of fire in plantations is ever present. There is a requirement to ensure that plantations are responsibly provided with firebreaks and that staff are well trained, and have developed or are developing a fire response capability.

The Lonsec Consultant Forester believes that FEA is well prepared in Tasmania and will be able to handle everything apart from a regional bushfire disaster.

The risk of fire damage to radiata pine plantations can be reduced if the trees are pruned, and stands are grazed or prescribed burned for fuel reduction. The latter is not a prospect in Tasmania and pruning is not proposed as part of this project.

Therefore it will be prudent for Investors in this project to take out fire insurance, as no guarantee of freedom from fire can ever be given.

Drought

South-eastern Australia has been plagued by drought during the last decade and while the impact has been lower in Tasmania, it continues as a concern. It is not possible to predict whether this situation will worsen or improve, but growers need to be aware that if below-average rainfall continues through the proposed rotation, yields will be reduced.

Political issues

There is a negative attitude to plantations amongst some Tasmanian environmentalists. This is based on two main concerns: the need to control native browsing species at the time of plantation establishment to ensure the new tree seedlings survive, and conversion of native forests to plantations.

The main browsers in Tasmania are possums and two species of wallaby. If they are not controlled, they move into the plantations and eat the newly planted seedlings, destroying the plantation. They are controlled mainly by shooting, poisoning or trapping. This is needed for about one year after planting, after which the small trees become tall enough to escape browsing, and control operations cease.

Concerns about animal control are not warranted. The possum and wallaby species are abundant and their numbers recover quickly when control measures cease.

Wind

Radiata pine plantations can be susceptible to wind damage if heavy winds strike recently thinned stands. Two thinnings are proposed in this Project, each leading to a relatively brief period during which wind damage could occur. Wind storms capable of plantation damage have occurred in Tasmania in the past. Susceptibility to wind damage can be reduced by careful arrangement of thinning operations, and FEA advise that they are aware of this.

It would be prudent for Investors in this Project to take out insurance against wind damage.

Option 4

Weed and pest management

Failed weed control (early in the life of the stand) and failed pest control (for older trees) are potential threats to the Project. In tropical climates, especially during the wet season, weeds can become rampant, and pest problems can develop rapidly. The technology of weed control is well known, but is not always easy to implement, because of the coincidence of hot weather (promoting weed growth) and heavy rainfall (making the plantation inaccessible for weed control).

This situation, together with the presence in the Douglas Daly of a range of native weed species and eucalyptus regrowth, will occur and will retard tree growth if not handled appropriately.

It is also necessary on these soils to ensure that sufficient vegetative cover is maintained between tree rows to protect the soil from erosion.

The Lonsec Consultant Forester has not yet had an opportunity to review the quality of FEA's weed control in this region, but has discussed the issue with FEA staff. The staff understand the critical importance of good weed control but it will be another 18 months before it is possible to pass judgement on implementation and standards.

African mahogany in Australia has been largely pest-free to date, although this situation might change once there are large plantations of the species in the region. The biggest potential threat is the tip Borer (Hipsiphyla robusta), which causes severe damage to mahoganies and similar trees elsewhere in the world, and is known to occur in Australia.

The African mahogany plantations are also to be established in a region in which the giant termite (*Mastotermes darwiniensis*) is widespread. Although the heartwood of African mahogany appears to be very resistant to termite attack, the termites will ringbark and kill individual trees. The Lonsec Consultant Forester has noted numerous infestations of giant termites in the existing African mahogany plantations on FEA's property at the Douglas Daly (these plantations are not managed by FEA). Practical and effective schemes for early detection, mapping and control (through baiting of the nests) of this serious pest are available. The critical aspect is intensity of monitoring, which requires constant vigilance. FEA are aware of this issue, and of the requirements for termite management. The implementation of the program is critical to the success of the Project.

There are also a small number of other potential pests for this species. These include the Two Spotted Fruit Bug (Amblypelta nitida) which has been observed attacking young African mahogany trees near Darwin, and is known to occur as far south as Katherine on horticultural crops. If this is found in the plantation, it will be necessary to control it by spraying with insecticide.

FEA will also need to monitor feral buffalos which roam this region, and which will get into the plantations and graze on young African mahogany trees. They can be controlled by shooting or trapping, or restricted from the property by maintenance of high quality buffalo-proof fencing.

The key to pest management in high value plantations is on-going frequent surveillance by field staff, and rapid deployment of control measures in the event of a problem outbreak. This emphasises the need for FEA to have one trained person permanently located in the field once this project commences and for back-up and support personnel to be available at pressure times. FEA needs to develop a Pest Management contingency plan which designates surveillance schedules, trigger points for action, and control measures, and to have this in place before planting of this Project begins.

Technical expertise

As a company, FEA has no experience with African mahogany forestry in the NT. Although FEA has recruited one forester with past experience, there remain many areas where they will need to learn as they go along. These areas include weeds management, nutrition, silviculture, pest control and (later) harvesting.

Achieving the desired length and straightness of tree boles will be a particular technical challenge.
The Lonsec Consultant Forester has raised with FEA the risk of underestimating the technical requirements, and the need to be able to react quickly when problems emerge. It is critical that they immediately act to put in place a sound research program, and to maintain collaborative research arrangements with other growers and scientists.

There is also a need to develop growth models and yield tables for African mahogany, so that progress of the stands can be monitored. None of this basic data is available at this stage and is not urgent. However, FEA has the capacity to ensure this work is done in a timely fashion.

Fire

The risk of fire in the African mahogany plantations in the Douglas Daly will increase as the plantations mature. It will be essential that fire equipment is on site, that staff are trained and that the remnant bushland is regularly subjected to fuel-reduction burning.

FEA is aware of this issue, and already has fire equipment on site and is putting in place collaborative arrangements with other land owners in the district. If fuel reduction in bushland adjoining the plantations is routinely carried out, the fire issue will be minimised. Nevertheless, bushfires are unpredictable, and the wise investor will take out insurance.

Timber quality and recovery

It is possible that the quality of timber produced from relatively young plantation-grown African mahogany may be inferior to that from trees harvested from native forests. Some research has been done on this issue in northern Australia, and timber quality was found to be satisfactory; however the timber was taken from much old trees than those which FEA proposes to grow.

Pruning is an important issue. African mahogany has the capacity to re-sprout new branches after pruning, so without follow-up work, the value of an expensive pruning operation can be quickly lost. It will be critical that FEA develop a sound approach to the scheduling of pruning, and follow-up pruning, if they are to produce the highest quality logs in the final crop trees.

FEA intend to recover sawn timber from the logs at a sawmill which they will develop in the region. It will not be until this mill is operating that it will be possible to validate FEA's assumptions of a 45 % recovery of sawn timber from the logs.

There is a risk that this assumption is optimistic, given the fact that the African mahogany is being grown from unimproved seed and that the plantations will be relatively young when harvested. On the other hand, FEA has shown itself capable of developing the most up-to-date and efficient sawmilling equipment.

A final factor which remains indeterminate is the likely proportion of heartwood to sapwood in the final crop trees of African mahogany. It is the red heartwood which is the most valuable.

Suitability of land

Lonsec is aware that FEA is in the final stages of securing an additional 1,200 hectare property in the Northern Territory, near Katherine, which is intended to be included in Option 4 of the 2009 project. FEA has identified that it will plant approximately half of the total project on this new site, with the remainder planted on M'Oganwo Station in the Douglas Daly Region (NT).

Whilst Lonsec has confidence in FEA's land selection protocol, a site visit and assessment of the land near Katherine has not been conducted at the time of writing. As a result, Lonsec highlights the potential risk to the project if this land is not suitable for the growing of African mahogany trees. In such a circumstance, unsuitable land could result in reduced timber production and timber quality, negatively impacting on investor returns.

7.3. Other Risks (All Options)

Changes in the law

Investors should be aware that the success of the Project and the returns achieved by Investors may be affected by changes in the taxation, regulatory, or legal environment, including changes in legislation and the imposition of new levies, imposts or other taxes.

Project agreements

Anything that affects FEA Plantation's ability to meet its obligations under the Constitution of the Project constitutes a risk to Investors.

Loss of key staff

Loss of key staff with the necessary forestry skills can be a major problem, especially where intensive forestry management systems are employed. FEA's on-going training programs for permanent staff and awareness of this issue should be sufficient to address this risk.

7.4. Risk Management (All Options)

Plantation insurance

It is recommended that Investors apply for one of the following two levels of optional insurance:

Basic Insurance – insures against loss of trees due to fire, wind or hail damage. This is optional if not obtaining finance from FEA. It is currently estimated that the cost of basic insurance for newly planted trees will be approximately $7 per Woodlot (including a 10% administration fee).

Full Replacement Cost Insurance – insures the Investor's interest for the original amount invested until the value of the interest exceeds the value of the initial investment. This level of insurance is compulsory for Investors who obtain P&I loans greater than two years and must be maintained during the full term of the loan. It is currently estimated that the cost of this full replacement cost insurance will be approximately $23 per Woodlot (including a 10% administration fee).

As the value of the trees increases with time, the insured values and respective costs to insure may also increase accordingly. The insurance premium may vary to reflect the value of the timber as it changes and the premium rates may vary from year to year depending upon insurance market conditions and claims experience.

Public risk insurance

FEA Plantations will maintain a public liability insurance policy with a limit not less than $10,000,000 to cover the liability of FEA Plantations and the Investors in respect of their interests in the plantation areas.

Stocking Guarantee

Investors are guaranteed a stocking rate of 90% of the initial planting density (1,200 stems per hectare) for a period of three years from the date the Investor is registered as the holder of the woodlot, or the commencement of general insurance cover for the plantations, whichever is the earlier.

Limitation of Investor's Liability

The Investor's liability is limited to the amount paid, or agreed to be paid for an interest in the Project.

7.5. Risk Profile Table (All Options)

In Table 7.1 overleaf Lonsec lists the critical Project risks, the potential impact and the level of risk management expected to be achieved.

Lonsec Risk Profile Tables were prepared for each of the Options that comprise Option 5 of the FEA Plantations Project 2009. The tables seek to quantify the key risks associated with each Option, and were constructed according to the AS/NZS 4360:1999 standards.

Table 7.1 outlines the range of risks that were considered by Lonsec. Each of the Options comprising this Project was rated as a stand-alone project, with the top five risks in each component indentified in **bold** type. However, in categorising the Project's level of risk, the individual Options' level of risk, their contribution to total Project revenue and the overall diversification benefits of the Project were considered.

The five most critical risks facing the Project have been assessed as follows:

1. Market demand for timber products produced in the Projects may be lower than expected which will adversely influence price potential
2. Timber prices obtained may be lower than those forecast, which may reduce revenue from a Project
3. As yield assumptions in northern NSW are not supported by actual data from mature plantations, growth rates may be lower than expected which will result in lower timber volume
4. Timber quality, either for sawing or for woodchips, may be lower than expected
5. Trees may be destroyed, damaged or suppressed due to sub-optimal control of weeds, pest or disease, particularly in northern NSW where these issues are particularly prevalent

Table 7.1 – Lonsec Risk Profile Table based on the AS/NZS 4360:1999 standards (All Options)

FEA Plantations Project 2009 - Option 5		Lonsec's AS/NZS Based Risk Assessment			
		Net Level of Risk for individual Project components			
Description of Risk	Possible Outcome	Option 1 woodlots	Option 2 woodlots	Option 3 woodlots	Option 4 woodlots
Forestry Risks					
Trees destroyed or damaged by wind or storm	Timber yield reduced, revenue reduced	Low	Low	Low	**Mod-High**
Quality of the timber is lower than expected	Revenue reduced	Low	**Moderate**	**Low**	**Mod-High**
Growth rates lower than expected	Timber yield reduced	**Moderate**	**Low-Mod**	Low	**Moderate**
Trees destroyed or damaged by drought	Timber yield reduced	**Low-Mod**	Low-Mod	**Low-Mod**	Low
Trees destroyed or damaged by fire	Timber yield and quality reduced	Low	Low	**Low-Mod**	Low
Trees destroyed, damaged or suppressed by weeds, pests or disease	Timber yield and quality reduced	**Low-Mod**	**Low-Mod**	Low	Low-Mod
Management Risks					
Loss of key staff or failure to recruit suitably skilled staff and contractors	Skills, experience and local knowledge lost, quality of product may be compromised	Low	Low	Low	**Low-Mod**
Failure of Responsible Entity or withdrawal of Licence	RE can be replaced, possible delay in bringing in new Investors	Low			
Insolvency or default of Operational Manager	Replacement Manager may not have required capability. Access to infrastructure may be impaired	Low			
Marketing Risks					
Market demand lower than expected, competition from substitutes, changes in consumer tastes	Volume of timber sold reduced, price possibly weakened, revenue reduced	**Moderate**	**Moderate**	**Moderate**	Low-Mod
Failure to establish relationships with signifcant timber buyers	Timber sold at open market price, lower than contract price	Low	Low-Mod	Low	Low-Mod
Timber prices lower than expected	Revenue reduced	**Moderate**	**Moderate**	**Low-Mod**	**Moderate**
Other Project Risks					
Fluctuations in exchange rates	Investors exposed to decrease in Timber or Oil price expressed in A$	Low	Low	Low	Low-Mod
Changes in substance or interpretation of applicable laws relating to Income Tax, GST, environmental matters	Adverse financial impact on Investors	Low			
Supporting infrastructure	Loss of facilities to harvest and transport the Project produce	Low	Low	Low	Low
Insufficient land available to allow establishment of project to a scalable size	Economies of scale not achieved for Investors and Operational Manager	Low	Low	Low	Low

8. Product Disclosure Statement Assumptions

8.1. Financial Model and Directors' Assumptions

The Responsible Entity has sought opinion on key project assumptions from experienced industry consultants in their fields of expertise, including woodlot yields, future timber trends, and future costs.

Lonsec's assessment of key project assumptions is based on the expert advice of the Lonsec Consultant Forester, the PDS Expert Reports and benchmarking to verifiable industry benchmarks and historical results.

Lonsec has stated its reasonable range for each key assumption, and note that the likelihood of any long term assumption (greater than two years) being achieved varies inversely with the time period projected.

Investors should be aware that unforeseen circumstances could impact on the stated assumptions in the PDS. It is important to recognise that long range returns will be based on economic, physical, and environmental inputs that are impossible to predict with accuracy.

Specific quotations from the Lonsec Consultant Forester's Report are identified by a light green background.

8.2. Timber yield

Lonsec Consultant Forester comments on yield:

Options 1&2

The Lonsec Consultant Forester has reviewed the projected yields for *E nitens* in Tasmania. A MAI of 27 is forecast. The Lonsec Consultant Forester has also studied the growth curves developed by FEA for nitens from their existing plantations, actual yields being achieved from early projects and computer modelling of projected growth for nitens and other species based on early growth. As a consequence, a projected MAI of 27 is seen as achievable for 13 and 16 year rotation lengths. However, this estimate might prove optimistic for stands in which early pruning is carried out, and Investors should regard an MAI as being at the top end of expectations.

Projections for NSW/Qld are theoretical, and cannot yet be verified by actual yields. At this stage FEA is using growth models from Tasmania for mainland eucalypts, which is clearly not satisfactory. However, negotiations are currently underway for FEA to enter an inventory data exchange agreement with a number of groups, including Forests NSW, Forestry Plantations Queensland and Southern Cross University. This agreement will provide FEA with access to mature age subtropical plantation eucalypt inventory data, allowing FEA to quickly develop in-house species growth models in a relatively short timeframe.

Early growth of dunnii and nitens in NSW indicate that projected growth rates will probably be achieved, but only if pest management is successful. Early growth of CCV is generally disappointing, and it is too early to say yet whether saligna stands are on track to achieve the projected figure.

It is possible that the recovery of sawlogs may be higher than the expected product mix quoted by FEA in the PDS. The recovery of sawn timber from sawlogs may also be higher than is presently being achieved, due to superior milling and drying technology. In addition, FEA is actively seeking to develop new outlets for thinnings and residues, all of which will assist to counteract any small shortfall in yield.

FEA Plantations has informed Lonsec that in April 2009, FEA secured what it believes is highly productive forestry land on the NSW coast. The land, which is located around Port Macquarie and Coffs Harbour, has been used to produce a commercial *Eucalypt* plantation of which is being harvested at the time of writing this report.

Whilst Lonsec has not inspected inventory data from this harvest, FEA Plantations has informed Lonsec that the yields are reported to be good, and foreshadows the properties' productive capacity. FEA Plantations is confident that the remaining plantations will be harvested and the ground prepared in time for the establishment of second rotation plantations under FEA Plantations Project 2009.

Option 3

The Lonsec Consultant Forester has reviewed FEA's yield projections for radiata pine plantations and found them to be reasonable and supported by long experience with this species in southern Australia.

Option 4

The unit of investment is one Woodlot with an area of approximately 0.2ha. FEA Plantations plans to undertake a commercial thinning operation at around year 11 before clearfell. Expected yields per hectare from commercial harvests are provided in Table 8.1.

Table 8.1 – Commercial Yield Assumptions (Option 4)

Harvest	Log Yield m^3 per hectare
Commercial Thinning	22.5
Clearfell Harvest	175.5
Total Commercial Harvests	198.0

The yield assumptions in the project are based on achieving a mean annual increment of 11m^3/ha of African mahogany.

FEA has assumed a growth rate of between 10 and 15 cubic metres per hectare per annum over the 18 year rotation for the African mahogany plantations established under this Project. This estimate derives from data from trial plots and from growth rates in plantations elsewhere in the world. The Lonsec Consultant Forester considers that this range of projected yields is achievable, provided:

- Initial establishment/stocking goals are achieved. Given the lack of genetic improvement with the African mahogany and the resultant variability in growth rates between individual trees high initial survival rates will be essential to allow later selection of final crop trees. This will mainly be a function of acquiring good seedlings, effective weed management and high quality planting.
- FEA is able to maintain high levels of pest control and to apply a suitably tailored program of nutritional management.
- The stand density management and pruning regime is able to achieve a 6 metre straight bole for the African mahogany trees.
- To meet these provisos, FEA will need to ensure that they can maintain trained staff in the area, including the appointment of at least one additional trained forester or the temporary transfer of a trained forester to the region to assist with oversight of planting operations, early weed control and pest management. It is also essential that they are able to maintain research input, especially into nutrition.

Given the relative inexperience of FEA with growing African mahogany in the Northern Territory, the Lonsec Consultant Forester recommends that Investors work on a growth rate of 11 or 12 cubic metres, rather than 15.

8.3. Timber prices

Lonsec Consultant Forester comments on timber prices:

Options 1&2

Pulpwood

In considering appropriate prices to apply to pulpwood produced in this Project, Lonsec has analysed the real price trend of plantation grown *Eucalypt* pulpwood.

Lonsec has validated the bone-dry metric tonne (BDMT) price, costs and losses assumed by FEA which have been applied to arrive at the stumpage prices identified in the PDS. The verification process includes a comparative analysis of assumptions against those provided by other plantation forestry managers having regard to species, location, shipping distance to destination port, timber density and processing and harvesting systems employed.

High and low case pulpwood stumpage prices have been derived by applying the standard deviation of historical woodchip prices about the mid case price. The subsequent high and low woodchip prices are imputed into the audited FEA 'stumpage calculator' to derive stumpage prices using assumptions specific to these Projects.

Sawlog prices

Following a process similar to that of pulpwood price derivation above, Lonsec has validated assumptions used by FEA in deriving stumpage prices for sawlogs produced in this Project, having particular regard to the intended end product to be produced from these sawlogs.

High and low case sawlog stumpage price assumptions have been derived by applying a nominal 10% variance about the midcase price. Lonsec considers this to be a reasonable range of sawlog price variance.

Floor price mechanism

Investors may benefit from a Floor Price mechanism for all pulpwood and sawlog products produced in each Project, as identified in the Wood Purchase Agreement. The Agreement outlines that FEA will pay Investors the greater of either the prevailing market price at the time of harvest or the price determined by applying the Floor Price mechanism. Table 8.2 shows the method by which the Floor Prices are determined.

Table 8.2 – Determination of Floor Prices (Options 1&2)

Product	Thinning	Clearfall
Option 1		
Pulpwood	0.35 X FOB Bell Bay Price	0.39 X FOB Bell Bay Price
Unpruned sawlog	1.2 X Pulpwood Floor Price at thinning	1.2 X Pulpwood Floor Price at clearfall
Option 2		
Pulpwood	0.35 X FOB Bell Bay Price	0.39 X FOB Bell Bay Price
Unpruned sawlog	1.2 X Pulpwood Floor Price at thinning	1.2 X Pulpwood Floor Price at clearfall
Pruned sawlog	n/a	2.0 X Pulpwood Floor Price at clearfall

Lonsec Consultant Forester comments on yield:

Pulpwood:

FEA has three factors in its favour for this project with respect to woodchip prices:

(i) the advent of a Pulpmill at Bell Bay will benefit FEA either directly or indirectly;

(ii) woodchip exported from Brisbane will enjoy a shipping advantage and will be a more valuable product because of its lower moisture content; and

(iii) FEA and its joint venture partner has developed the "certified" SmartFibre product, thus producing a higher volume of quality material, for which a higher price should be achieved.

FEA also has a substantial potential to investigate new woodchip export systems from the NSW/Qld region using existing mature stands purchased from Brisbane Plantation Forest Company Pty Ltd (BPFL), or to develop new domestics outlets for this material which will achieve a better price than export woodchips. The Lonsec Consultant

Forester considers that these issues will be resolved before the 2009 Project is ready for first thinning.

Sawlogs:

The solid wood products produced in this project will go to FEA's Optimill sawmill, or to a new sawmill to be built in NSW. Alternatively they may be sold as veneer logs, either to the domestic or the overseas market. Under the Wood Purchase Agreement between FEA and FEA Plantations, Investors are assured that FEA will purchase the wood from thinnings and final harvest, and will pay a "fair and reasonable price". An important issue is the fate of high quality pruned logs which could be used by FEA in their sawmill for production of EcoAsh, but which may fetch a higher price as veneer logs exported to (for example) China or used by domestic veneer mills. The Lonsec Consultant Forester understands that FEA's offer is a right of first refusal, with the price independently signed off before FEA Plantations can accept it. If FEA Plantations receives a better price offer for the logs (under similar terms and conditions) then FEA can choose to match that price or not. If they opt not to match it FEA Plantations is free to sell to the alternative buyer. This is fair to the Investor.
The stumpage estimates set out by FEA are reasonable, indeed may be marginally conservative.

8.4. Price and cost inflation (All Options)

Lonsec has the view that it is appropriate to assume a long-term Australian inflation rate (CPI) of 2.6%. This view is based on an RBA survey of market economists for the year to June 2009.

8.5. Costs

Detailed costs are tabulated in Section 10 of this report. The Lonsec Consultant Forester's comments on costs are:

Options 1&2

The Lonsec Consultant Forester has inspected a cost schedule for establishment and maintenance provided by FEA for this project, and a range of operations on the ground. This revealed:

- Plantation forestry with E nitens in Tasmania currently follows a uniform pattern and the cost components are well established for the different sites, whether or not the new plantation is 1R or 2R. FEA's costs should not be different from those of other plantation managers.
- Plantation forestry in the sub-tropics, i.e. NSW/Queensland, is inherently more expensive than that in southern Australia, mainly due to the demands for weed and insect control, although to some extent this is offset by having larger areas (and economies of scale) than in Tasmania, and less need to control browsing animals.

On balance, it is reasonable to expect that the operational costs for FEA's plantation operations should be on a par with those of other forestry organisations operating in Tasmania and in sub-tropical areas.

Option 3

The Lonsec Consultant Forester has previously inspected cost schedules for establishment and maintenance provided by FEA for this project, and a range of operations on the ground. This revealed that plantation forestry in Tasmania follows a uniform pattern and the cost components are well established for the different sites. It is reasonable to expect that the operational costs for FEA's plantation operations should be on a par with those of other forestry organisations.

Option 4

African Mahogany Prices

Base price

FEA has suggested a Bone Dry Metric Tonne (BDMT) price for African mahogany of $3,000 in 2009 dollars. Lonsec believes that this value is acceptable and reflective of the broader market. However, Lonsec feel it pertinent to note that there is limited accurate Australian market price data available, due to the small volumes traded domestically. Adding to this, the global market supply is predominantly sourced from native resources where stochastic supply creates difficulty in accurately assessing market prices.

Investors in the Project are paid a stumpage price (mill door price *less* harvesting, handling and haulage).

FEA has provided Lonsec with an estimate of the costs associated with harvesting, transporting and processing African mahogany. Acknowledging the lack of data on African mahogany, Lonsec believes that the allocation of costs appears reasonable when compared to that of other forestry sectors.

The stumpage price received by investors, whilst driven by the BDMT market price, ultimately is influenced by the cost of harvesting, value adding, and the profit margin of each related party; thus the 'Mill Door' price. Currently there is no large scale processing of African mahogany in Australia and as a result, Lonsec has been unable to fully reconcile the 'Mill-Door' price with the estimated market BDMT price. FEA have provided a breakdown of the expected costs and losses resulting in a stumpage price of $223/m^3 (thinnings) and $446/m^3 (clearfall).

Whilst Lonsec believes that these values may be achievable, the lack of real market data compels a more conservative estimate.

As a result Lonsec has applied a stumpage price of $220/m^3 at year 11 thinning, and $440/m^3 at clearfall, when modelling investor returns. A 10% increase and/or decrease in the mid-case stumpage prices has also been modelled to reflect industry sentiment on the potential range of prices, and its influence on return.

Lonsec price inflation range estimates

In determining the upper and lower price ranges, Lonsec has developed a likely price range estimate based on the trends in historical international tropical timber prices. From this analysis the likely upper and lower rate of price growth African mahogany prices are 3.0% (nominal) and 0.6% (nominal) respectively. The mid-case estimate for African mahogany price growth is 2.6%, reflecting zero real growth.

Costs

Lonsec has been provided with detailed estimated costs for the operations proposed in this Project. These estimates appear to be comprehensive, but at this stage it is not possible to comment authoritatively on their likely accuracy. This is because of the immaturity of the High Value Timber plantation industry at this point in history, and also because plantation maintenance costs can vary greatly from year to year, depending on seasonal influences.

Detailed costs are tabulated in Section 10 - Application of Funds and Ongoing Costs, in this report.

Exchange rates

Investors may be exposed to exchange rate risks. The price offered by Purchasers may be subject to export market conditions where revenues are received in foreign currencies.

8.6. Summaries of Assumptions (All Options)

Table 8.3a — Summary of Key Assumptions – Options 1 & 2

Assumption – Options 1 & 2	Low case	Mid case	High case	Source of estimate
Option 1 assumptions				
Timber yield (m^3 / woodlot)	151	178	195	FEA/Lonsec
Pulpwood price (thinning) ($ / m^3)	$39.56	$42.00	$44.44	FEA/Lonsec
Pulpwood price (clearfall) ($ / m^3)	$42.52	$45.00	$47.77	FEA/Lonsec
Unpruned sawlog price (thinning) ($ / m^3)	$47.25	$52.50	$57.75	FEA/Lonsec
Unpruned sawlog price (clearfall) ($ / m^3)	$50.63	$56.25	$61.88	FEA/Lonsec
Option 2 assumptions				
Yield (m^3 / woodlot)	183	215	237	FEA/Lonsec
Pulpwood price (thinning) ($ / m^3)	$39.56	$42.00	$44.44	FEA/Lonsec
Pulpwood price (clearfall) ($ / m^3)	$42.52	$45.00	$47.77	FEA/Lonsec
Unpruned sawlog price (thinning) ($ / m^3)	$47.25	$52.50	$57.75	FEA/Lonsec
Unpruned sawlog price (clearfall) ($ / m^3)	$50.63	$56.25	$61.88	FEA/Lonsec
Pruned sawlog price (clearfall) ($ / m^3)	$101.25	$112.50	$123.75	FEA/Lonsec
Other assumptions				
Compound price inflation % pa	2.0%	2.6%	3.0%	Lonsec

Table 8.3b — Summary of Key Assumptions – Option 3

Assumption – Option 3	Low case	Mid case	High case	Source of estimate
Timber yield (m^3 / woodlot)	248	275	303	FEA / Lonsec
Pulpwood price	$8.66	$9.66	$10.65	Lonsec
Sawlog price < 24cm ($ / m^3)	$32.41	$34.89	$37.37	Lonsec
Sawlog price 24cm to 32cm ($ / m^3)	$44.53	$47.64	$50.74	Lonsec
Sawlog price 32cm to 45cm ($ / m^3)	$61.48	$66.66	$71.83	Lonsec
Sawlog price 45cm+ ($ / m^3)	$75.21	$80.84	$86.48	Lonsec
Compound price inflation % pa	1.4%	2.6%	3.0%	Lonsec

Table 8.3c —Summary of Key Assumptions – Option 4

Assumption – Option 4	Low case	Mid case	High case	Source of estimate
Timber yield (m^3 / woodlot)	180	198	270	FEA/Lonsec
Thinnings stumpage price ($ / m^3)	$198	$220	$242	FEA/ Lonsec
Clearfall stumpage price ($ / m^3)	$396	$440	$484	FEA/ Lonsec
Compound price inflation % pa	0.6%	2.6%	3.0%	Lonsec

9. Financial Returns

9.1. Investment Cashflow (All Options)

The focus of the Lonsec financial performance measure is defined by the Internal Rate of Return (IRR) of the Project and related model sensitivities. Whilst not a holistic measure of project performance, the IRR analysis generates a single number that summarises the merits of an investment based on the cash flows. The financial returns and IRR are compared with Lonsec's benchmarks and relative to the Project's sector 'Peers'. In order to comply with ASIC guidelines, the PDS does not have IRR estimations.

It is important to recognise that the Lonsec IRR estimates disclosed below should not be used as a basis for an investment decision by potential Investors. The Lonsec possible IRR outcomes are simply an assessment by Lonsec that the Project meets industry and Lonsec benchmarks, and is limited by the typical uncertainty of long term forecasts.

There is a considerable degree of judgement involved in making long-term forecasts, and future outcomes may differ substantially from the estimated Lonsec IRR estimates. Lonsec also examines the sensitivity of the Project to varying assumptions which identifies those key variables which have the most sensitive correlation to potential Project returns.

Lonsec strongly advises Investors and financial planners to simulate their own long term financial projections using their own selected assumptions to provide a basis for investment decision making. This is in line with current ASIC guidelines.

9.2. Financial Returns

Table 9.1 – Mid-case Investor Returns

Project	Investment Option	IRR after tax Ungeared		
		Lonsec lower case	Lonsec mid case	Lonsec upper case
Option 1	No Insurance	7.1%	8.4%	9.2%
	Insurance	6.6%	8.0%	8.8%
Option 2	No Insurance	8.3%	9.5%	10.2%
	Insurance	7.8%	9.1%	9.8%
Option 3	No Insurance	6.0%	7.3%	7.8%
	Insurance	5.5%	6.9%	7.3%
	Buy-back participant*	3.7%	5.5%	6.1%
Option 4	No Insurance	8.2%	10.3%	12.2%
	Insurance	7.4%	9.5%	11.3%
Option 5	No Insurance	8.1%	9.1%	10.1%
	Insurance	7.6%	8.6%	9.6%
	Buy-back participant*	7.8%	9.0%	10.0%

* Indicative returns for an Investor participating in the Option 3 buy-back offer, excluding the cost of insurance, using the mid case discount rate of 10% in calculating the NPV of future inflows.

- Lonsec has estimated the ungeared mid-case assumption based scenarios for Options 1 and 2 of the FEA Plantations Project 2009. The Projects are expected to produce average after tax returns relative to the overall risk assessment of the project and other similar projects, based on the achievement of the key performance variables as listed in the PDS.
- Lonsec has estimated the ungeared mid-case return for Option 3 of FEA Plantations Project 2009. The Project is expected to produce below average after tax return considering the overall risk level of the project, the investment period, and relative to similar Projects within the Lonsec Peer group.
- Lonsec has estimated the ungeared mid-case assumption based scenarios for the FEA Plantations Project 2009 – Option 4. The Project is expected to produce a moderate to low after tax return relative to the overall risk assessment of the project and other similar projects, based on the achievement of the key performance variables as listed in the PDS.

9.3. Scenario Modelling

Lonsec has modelled a number of scenarios to reflect the impact on the projects of varying the key assumptions through the upper and lower ranges identified in section 8.6. The key financial performance measure that Lonsec focuses on is the ungeared after tax IRR.

Table 9.2 – Scenario Modeling - Impact on Investor after-tax IRR (ex insurance)

Scenario	Option 1	Option 2	Option 3	Option 4	
High case yields	9.2%	10.2%	7.8%	12.2%	10.1%
High case prices	9.0%	10.1%	7.7%	10.9%	9.7%
High case price inflation	8.8%	9.9%	7.6%	10.7%	9.5%
Mid-case assumptions	**8.4%**	**9.5%**	**7.3%**	10.3%	**9.1%**
Low case price inflation	7.8%	8.8%	7.0%	8.2%	8.5%
Low case prices	7.8%	8.8%	6.8%	9.7%	8.1%
Low case yields	7.1%	8.3%	6.0%	9.7%	8.1%

- Relative to their forestry sector "peers" in the Lonsec database, the scenario modelling in Table 9.2 shows both Projects (Options 1&2) display a 'high' level of robustness in financial returns in response to changes in key assumptions. In each Option, the high case yield scenario has the greatest influence on upside returns, while low case yields have the most adverse effect on Project returns.
- In Options 1&2, the mid case IRR's are 'average' relative to the peer average of 8.6%, with the spread of potential returns considered 'narrow' indicating the Projects respective cluster of possible return outcomes are concentrated around the mid cases.
- The Project's (Option 3) mid case IRR is 'Low' relative to the Peer average of 8.6%, with the spread of potential returns considered 'Narrow' indicating the Project's cluster of possible return outcomes is concentrated around the midcase.
- The scenario modelling (Option 4) indicates that the financial returns are reasonably robust, with the likely variations in key assumptions identified by Lonsec and the Consultant Forester impacting the IRR by 1.9% upwards and 2.1% downwards. A movement in cost inflation has no effect on Investor IRR unless electing for optional insurance cover.
- Relative to the Project's forestry sector "peers" in the Lonsec database, the scenario modelling (Option 5) indicates the Project has an 'average' IRR with a 'narrow' spread of potential returns indicating that the Project's cluster of possible return outcomes are concentrated about the mid case. The high case yield scenario has the greatest influence on upside returns, whilst the low case yield and price inflation scenario equally have the most adverse effect on Project returns.

9.4. Gearing

The use of financing to effectively defer the payment of the Establishment Fee may facilitate an Investor's entry into the Project and also has the effect of increasing the after tax IRR for the Investor. However, the Investor still has the obligation to repay the debt principal over the agreed term, plus the additional obligation to pay interest on the debt principal over the agreed term. Investors will need to assess whether these additional obligations increase the overall level of risk of participation in this Project, and whether the enhanced returns adequately compensate for any increase in the level of risk.

Investors in the Project may borrow up to 100% of the Establishment Fee when seeking finance through the preferred financier, Commonwealth Bank of Australia, plus any Loan Application Fee that is payable. There are several loan options available through the preferred financier, ranging from a 12-month Principal and Interest (P&I) loan through to a 15-year P&I loan. For all loans with terms greater than 3 years, Investors in Options 2, 3, 4 and 5 can source loans with interest only periods of 3 years and investors in Option 1 can source loans with interest only periods of 2 years.

See section 12 of this report for more information on finance packages available or alternatively visit FEA's website. A summary of the impacts of various types and levels of fixed interest P&I loans available from CBA are provided in Table 9.3, below.

Table 9.3 – Impact of Terms Payment financing on the mid case scenario after tax IRR

Scenario	Gearing level	1 Year P&I	3 Year P&I	5 Year P&I	7 Year P&I	10 Year P&I	12 Year P&I	15 Year P&I
Option 1 Mid-case assumptions	**50%**	7.9%	8.1%	8.2%	8.4%	8.7%	9.0%	na
	75%	8.1%	8.4%	8.8%	9.2%	10.2%	11.7%	na
	100%	8.3%	8.9%	9.6%	11.0%	15.0%[1]	15.8%[2]	na
Option 2 Mid-case assumptions	**50%**	9.0%	9.2%	9.4%	9.6%	9.9%	10.1%	10.5%
	75%	9.2%	9.5%	9.9%	10.3%	11.0%	11.7%	13.3%
	100%	9.4%	9.9%	10.5%	11.4%	14.4%	16.7%[3]	17.6%[4]
Option 3 Mid-case assumptions	**50%**	6.8%	6.8%	6.8%	6.9%	6.9%	6.9%	6.9%
	75%	6.9%	6.9%	7.0%	7.0%	7.0%	7.1%	7.2%
	100%	6.9%	7.1%	7.1%	7.2%	7.3%	7.4%	7.8%
Option 4 Mid-case assumptions	**50%**	10.4%	9.7%	9.9%	10.1%	11.4%	10.7%	11.1%
	75%	10.6%	10.0%	10.4%	10.8%	11.6%	12.3%	14.0%
	100%	10.8%	10.4%	11.1%	12.0%	15.8%	16.9%*	17.8%
Blended Option Mid-case assumptions	**50%**	8.9%	9.1%	9.3%	9.5%	9.8%	10.1%	10.5%
	75%	9.1%	9.5%	9.9%	10.4%	11.3%	12.3%	15.3%
	100%	9.4%	10.0%	10.7%	12.0%	16.7%[1]	17.0%[2]	18.0%[3]

- Further loan details are outlined in section 11.1 of this report and further information about the gearing packages can obtained from the FEA.
- NB: the returns presented in Table 9.3 have been modelled excluding the cost of the Loan Service Fee of $20 per month

9.5. Sensitivity Analysis

Figures at 9.1 below identify the sensitivity of potential Project returns, subject to a change in key project parameters. The Lonsec Mid Case parameters were used as the basis for assessment about which each parameter was varied over a nominal range of +/- 30%.

Figure 9.1a – Sensitivity of Option 1 IRR outcomes over a range of key parameters (Option 1)

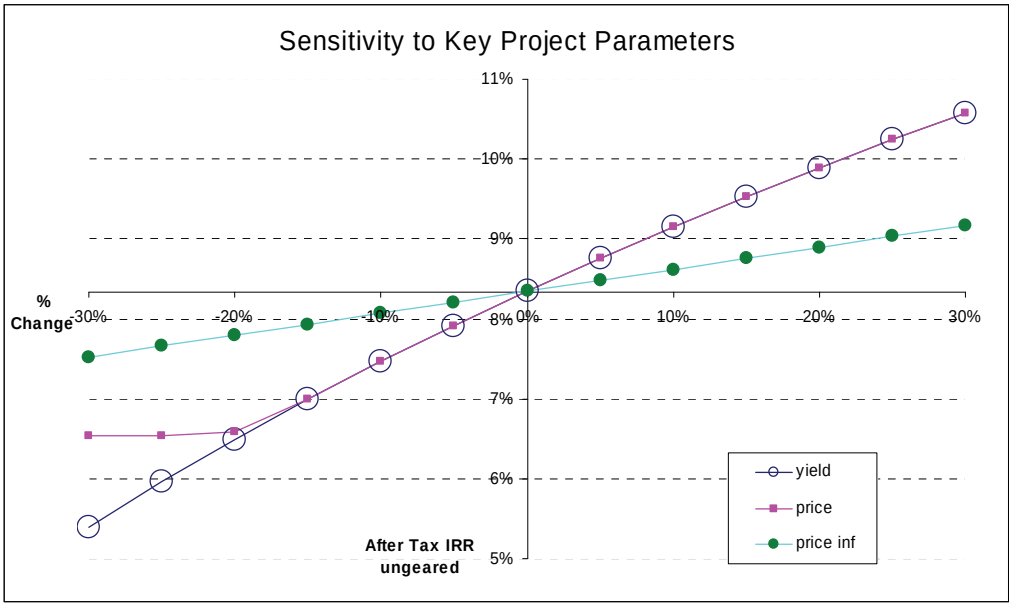


Figure 9.1a shows that Option 1 is less sensitive to movements in Price Inflation relative to movements in Price and Yield. Overall, Lonsec considers the Project to have a moderate level of sensitivity, attributed to the deferred fee structure which is a proportion of net harvest proceeds.

Reducing the sensitivity of the Project to downside price movements is the floor price mechanism. The floor price mechanism for all products produced in the Project is fully operative upon a 24% reduction in stumpage prices. At this point, the Project maintains an IRR of 6.6%, as shown in Figure 9.1.

Figure 9.1b – Sensitivity of Option 2 IRR outcomes over a range of key parameters (Option 2)

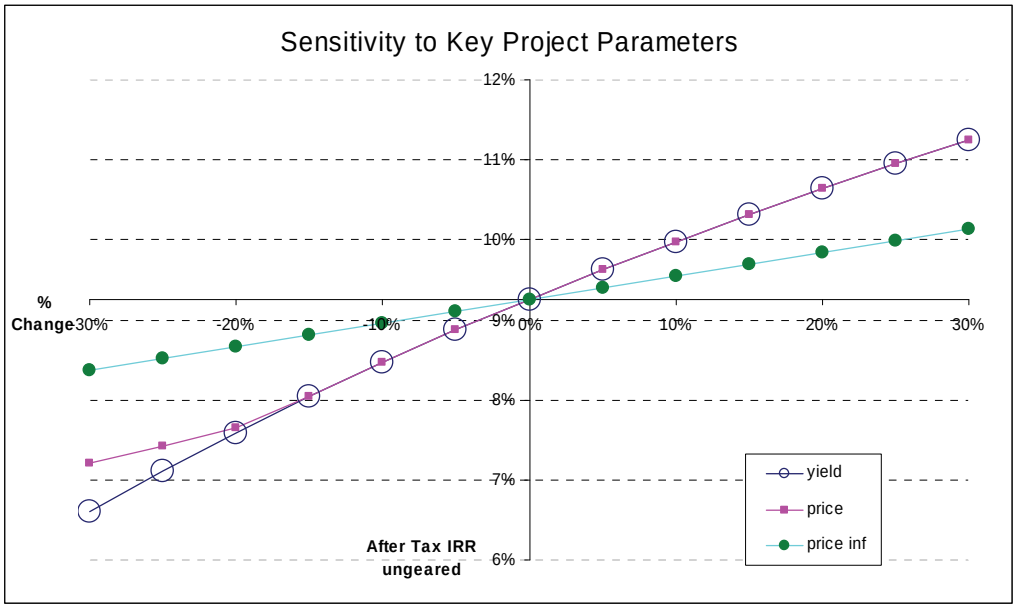


Figure 9.1b shows that Option 2 is also less sensitive to movements in Price Inflation relative to movements in Price and Yield. Lonsec considers the Project to have a low to moderate level of sensitivity, attributed to the deferred fee structure which is a proportion of net harvest proceeds.

Reducing the sensitivity of the Projects to downside price movements is the floor price mechanism. The floor price mechanism for all products produced in the Project is fully operative upon a 34% reduction in stumpage prices. At this point, the Project maintains an IRR of 7.2%.

Figure 9.1c – Sensitivity Chart of the Project IRR outcomes over a range of key parameters (Option 3)

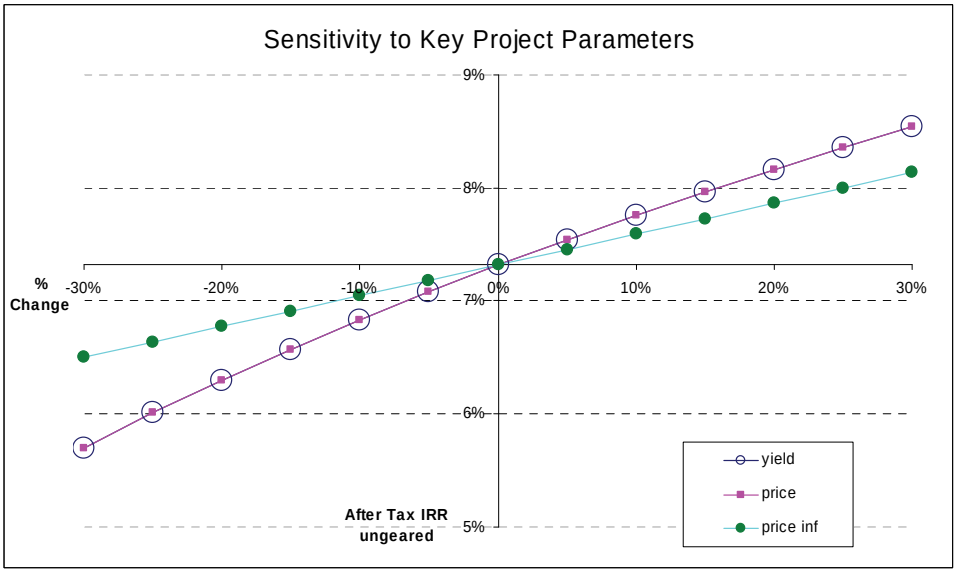
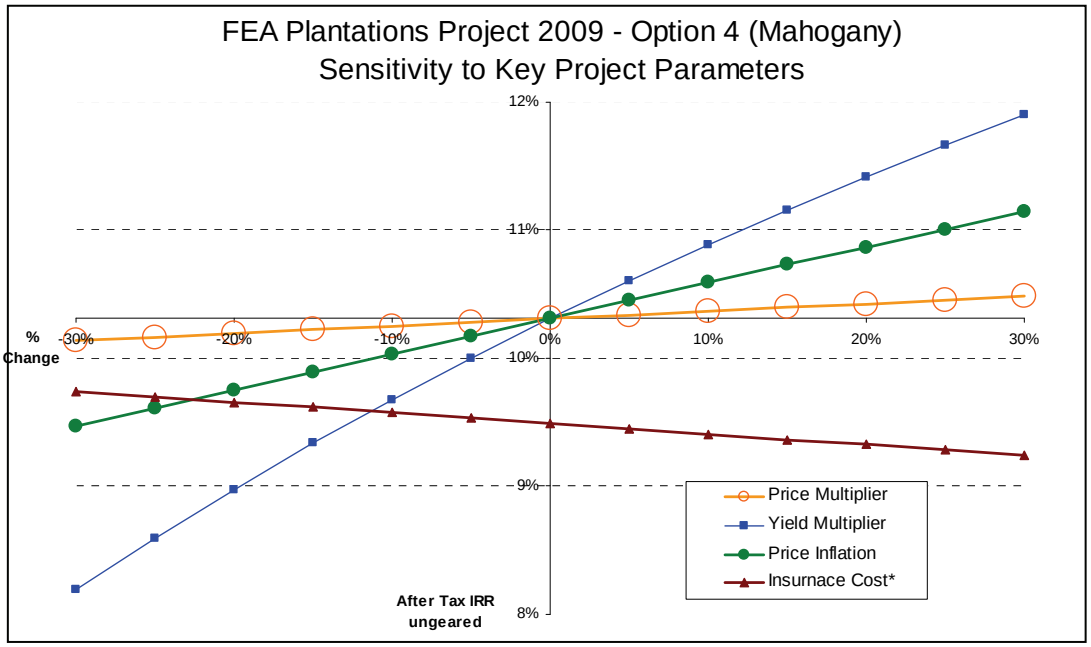


Figure 9.1c shows that the Project is less sensitive to movements in Price Inflation relative to movements in Price and Yield. Overall, Lonsec considers the project to have a low to moderate level of sensitivity, attributed to the deferred fee structure which is a proportion of net harvest proceeds.

Figure 9.1d — Sensitivity Chart of the Project IRR outcomes over a range of key parameters (Option 4)



*Note: the Insurance Cost line in Figure 9.1 models the effect on financial returns when adopting Insurance Protection on woodlots. This results in a drop in the mid-case IRR to 9.5%.

Figure 9.1e — Sensitivity of Option 5 IRR outcomes over a range of key parameters

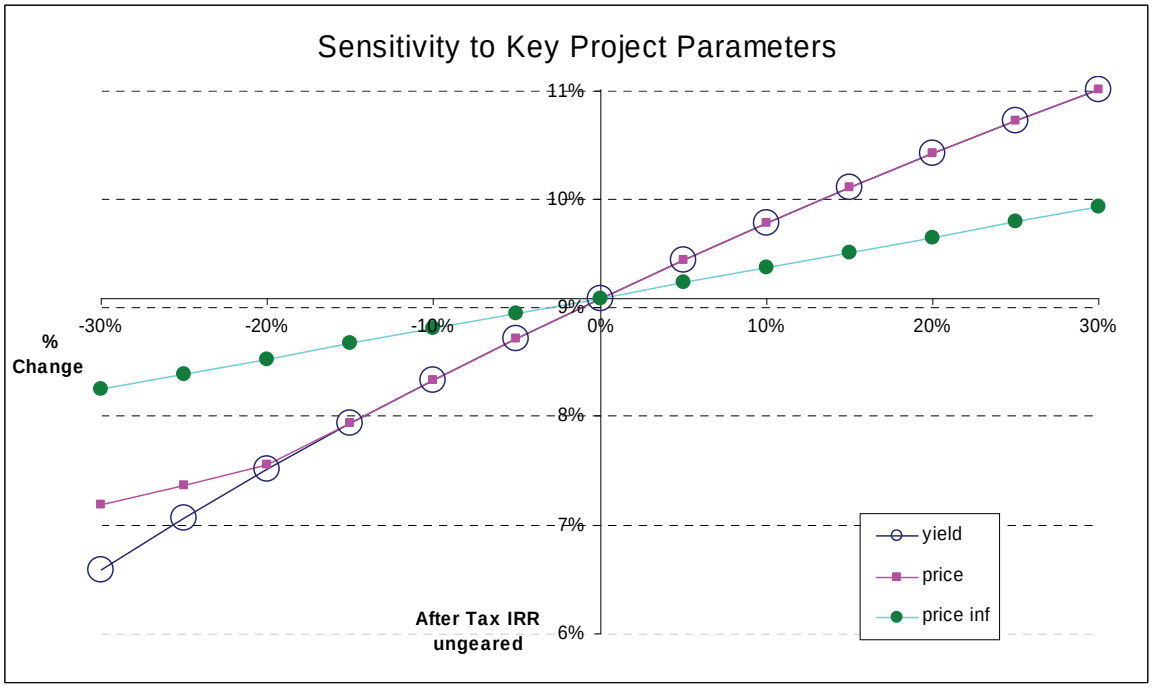


Figure 9.1e shows that Option 5 is less sensitive to movements in Price Inflation relative to movements in Price and Yield. Overall, Lonsec considers the Project to have a moderate level of sensitivity, attributed to the deferred fee structure which is proportional to net harvest proceeds.

The benefits of the floor price mechanism, which applies to timber produced in the Option 1 and Option 2 woodlots, can be seen in the downside sensitivity of the Project to Price. Figure 9.1 illustrates that certain products reach their respective floor price after approximately a 15% fall in stumpage price onwards

9.6. Zero IRR conditions

Table 9.4 shows the extent of the variations in yield and/or price that are needed to drive the Investor after tax IRR down to zero.

At the zero after tax IRR position an Investor would receive back a sum of money exactly equal to the total of the initial outlay plus any annual payments that had been made. In this situation the Investor has not lost money as such, but the Investor's financial position has been weakened because of the opportunity cost of that money, being the income foregone had the money been in a profitable investment.

The zero IRR position must not be seen as some form of a capital guarantee, because the Project Manager makes no such guarantee. If, for example, timber yields in Option 1 fell by 66%, the after tax IRR would be *negative* 0.2% and the Investor would receive in total a sum of money less than the total of the initial outlay plus any annual payments that have been made.

The analysis suggests that Options 1 and 2 of the FEA Plantations Project 2009, relative to its peers, both have a 'high' level of robustness in financial returns, requiring a 65% and 73% fall in yield, respectively, to drive the IRR down to zero.

Due to the presence of the floor price mechanism, it is not possible to drive the IRR down to zero by manipulating prices only. The floor prices are also activated in the combined yield and price scenario. Hence, beyond the activation point it is yield only that influences the IRR. Consequently, this scenario also displays a high degree of robustness.

Table 9.4 – Scenario Modeling - Zero IRR conditions

Scenario	Option 1	Option 2	Option 3	Option 4	Option 5	IRR after tax ungeared
Timber yields only fall by…	65%	73%	82%	84%	75%	0.0%
Timber prices only fall by …	na	na	82%	84%	na*	0.0%
Timber yields and prices fall by…	57%	64%	57%	60%	60%	0.0%

* Values stated in 2009 dollars.

Note The numbers in bold type indicate the assumptions that are being varied from the mid-case in the scenario analyses.

9.7. Buy-back offer (Option 3)

FEA Plantations, or a related entity, will offer to buy back Investors' interests in Option 3 woodlots in approximately year 16 of the Project. As discussed in Section 1 of this report, Investors' may opt to be bought-out for 90%of the value of their woodlot(s) based on the Net Present Value of the future proceeds per woodlot, net of Land Sourcing and Management Fees. The difficulty comes, however, in determining an appropriate discount rate to employ in this calculation. The actual discount rate used will be determined by the valuer at the time of the offer.

Lonsec has conducted a scenario analysis to model the impact of three different discount rates have on the IRR for an Investor participating in the buy-back offer. In calculating the future gross revenue of a woodlot, Lonsec has assumed that the mid case price and yield assumptions will prevail. Lonsec strongly encourages advisors and potential Investors to conduct their own sensitivity analysis of yield, price and discount rate in determining the appropriateness of the returns generated through participating in this buy-back offer.

Table 9.5 – Scenario Modeling – impact of NPV discount rates on IRR for buy-back participants

Discount rate	IRR after tax ungeared
5.75%*	7.5%
10%	5.5%
15%	3.5%

* 12 year Treasury Fixed Coupon Bond rate

9.8. Summary of Financial Analysis

Table9.5a: Summary of financial analysis (Options 1&2)

	Units	Option 1	Relative to Sector Peers	Option 2	Relative to Sector Peers
Cashflow profile	Years to cumulative positive cashflow	14	Average	17	Long
Mid-case return	IRR	8.4%	Average	9.5%	Average
Spread of returns	IRR	7.1% to 9.2%	Narrow	8.3% to 10.2%	Narrow
Robustness	Zero IRR ('Price & Yield')	57%	High	64%	High

Table - 9.5b: Summary of financial analysis (Option 3)

	Unit	Value	Relative to Sector Peers
Cashflow profile	Years to cumulative positive cashflow	19	Long
Mid-case return	IRR	7.3%	Low
Spread of returns	IRR	6.0% - 7.8%	Narrow
Robustness	Zero IRR ('Price & Yield')	57%	High

Table 9.5c: Summary of financial analysis (Option 4)

	Units	Value	Relative to Sector Peers
Cashflow profile	Years to cumulative positive cashflow	19	Long
Mid-case return	IRR	10.3%	Low
Spread of returns	IRR	8.2% - 12.2%	Narrow
Robustness	Zero IRR ('Price & Yield')	59%	Average

Table - 9.5d Summary of financial analysis (Option 5)

	Units	Value	Relative to Sector Peers
Cashflow profile	Years to cumulative positive cashflow	14	Average
Mid-case return	IRR	9.1%	Average
Spread of returns	IRR	8.1% to 10.1%	Narrow
Robustness	Zero IRR ('Price & Yield')	60%	High

10. Application of Funds and Ongoing Costs

10.1. Direct Forestry Expenditure (All Options)

Direct Forestry Expenditure (DFE) refers to the amount of investor funds expensed by the manager (of an MIS forestry project) to fund the establishment, tending, felling and harvesting of the trees. The DFE legislation (in general) requires the project manager to expense no less then 70% of investors' funds on Direct Forestry Expenditure. This legislation simplifies taxation for MIS forestry projects, through eliminating the need to 'prove' investors are carrying on the business of 'growing trees' (a requirement to qualify for the tax deduction for the investor contributions). Therefore the legislation ensures that at least 70% of investor funds are expensed on DFE's, allowing investors to claim 100% of their contributions as a tax deduction.

Schedule 8 of the Tax Law Amendment Bill, amends the Income Tax Assessment Act 1997 (ITAA 1997) to provide that initial investors in forestry managed investment schemes (forestry schemes) receive a tax deduction equal to 100% of their contributions and secondary investors will receive a tax deduction for their ongoing contributions to forestry schemes, provided that the scheme manager can identify on application for the Product Ruling that at least 70% of the scheme manager's expenditure, under the scheme, is expenditure attributable to establishing, tending and felling trees for harvesting (direct forestry expenditure or DFE).

The definition of the DFE rule in the Bill is very broad (set out in section 394-35 (of the Bill)): *"The rule provides that the amount of DFE under the scheme (the sum of the net present values of all DFE under the scheme) divided by the amount of payments under the scheme (the sum of the net present values of all amounts that participants in the scheme have paid or will pay) must be greater than or equal to 70%.*

"This is an objective test of what is a reasonable estimate of 70% expenditure on DFE, based on the actions that a reasonable person in the scheme manager's position would take in making such an estimate. A market value substitution rule operates where the expenditure differs from market value."

A major change that has resulted through this amendment is that the Responsible Entity of the project and participating Investors, are no longer required for tax purposes, to demonstrate that they are 'carrying on a business' in order to access the deduction, and also are not required to demonstrate that returns paid is of a revenue nature from the operation.

Direct Forestry expenditure defined in the Bill, covers a broad range of items, and includes: "amounts spent by the scheme manager (or an associate of the scheme manager) under the scheme that are attributable to establishing, tending, felling and harvesting trees; and amounts of notional expenditure reflecting the market value of land, goods and services provided by the scheme manager that are used for establishing, tending, felling and harvesting trees".

10.2. Investors' establishment and ongoing fees

Options 1&2

Details of Investor fees are provided in the PDS and in Section 1 in this report.

The Establishment Fee per hectare for these projects is $6,900 ($3,450 per woodlot of 0.5ha in size) which is above average when compared to the Lonsec dataset for forestry projects (average = $5,825).

Investors are liable to pay Land Sourcing and Management fees. These are deferred and are deducted before distribution to Investors. That is, total fees will amount to 18% of net Harvest Proceeds. Investors in Option 2 are also liable for pruning fees.

The Net Present Value of fees in Option 1 are equal to $6,732, and $8,648 for Option 2. These figures can be compared to the forestry sector average in the Lonsec database of $7,262.

The revenue and expense breakdown in Table 10.1a and Table 10.2a for Option 1, and Table 10.1b and Table 10.2b for Option 2, are modelled on the 2009 Project cashflow models.

Table 10.1a – Investor Payments - FEA Plantations Project 2009 – Option 1

Investor	First 3 years		Project life	
Establishment Fee	6,900	100%	6,900	61%
Land Sourcing Fee	0	0%	3,368	30%
Management Fee	0	0%	962	9%
Total	**6,900**	**100%**	**11,230**	**100%**

Table 10.1b – Investor Payments - FEA Plantations Project 2009 – Option 2

Investor	First 3 years		Project life	
Establishment Fee	6,900	100%	6,900	41%
Land Sourcing Fee	0	0%	5,969	35%
Management Fee	0	0%	1,706	10%
Pruning Fees	0	0%	2,440	14%
Total	**6,900**	**100%**	**17,015**	**100%**

- Note: Tables 10.1a and 10.1b calculate Investor payment excluding the payment of optional woodlot insurance

Option 3

Details of Investor fees are provided in the PDS and are summarised in Section 1 of this report.

The Establishment Fee per hectare for the Project is $6,900 ($3,450 per woodlot of 0.5ha in size) which is above average when compared to the Lonsec dataset for forestry projects (average = $5,825).

Investors are liable to pay Land Sourcing and Management fees. These are deferred and are deducted before distribution to Investors. That is, total fees will amount to 15% of net Harvest Proceeds.

The Net Present Value (10%) of costs in the Project is equal to $6,899. This can be compared to the forestry sector average in the Lonsec database of $7,262.

The revenue and expense breakdown in Tables 10.1c and 10.2c are modelled on the 2009 Project cashflow.

Table 10.1c – Investor Payments - FEA Plantations Project 2009 (Option 3)

Investor payments ($/ha)	First 3 years		Project life	
Establishment Fee	6,900	100%	6,900	51%
Land Sourcing Fee	0	0%	5,267	39%
Management Fee	0	0%	1,317	10%
Total	**6,900**	**100%**	**13,484**	**100%**

* Tables 10.1c and 10.1d below calculate Investor payments excluding the payment of optional woodlot insurance

Option 4

Details of Investor fees are provided in the PDS and in Section 4 in this report.

The Application Fee per hectare for this project ($17,250) is below average when compared to the Lonsec database range for appearance grade timber projects (average = $22,059). It should be noted that the database includes 19 samples and as such has some statistical limitations.

Investors are liable to pay Land Sourcing and Management Fees, however these are deferred and are payable by a 20% deduction from net harvest proceeds. The deferred management fee structure provides the Manager with a strong incentive to maximize net harvest proceeds, to the joint benefit of both the Investor and the Manager. After paying the Application Fee, Investors are not required to contribute further to the project (except for Insurance if elected).

The revenue and expense breakdown in Table 10.1d and 10.2d are modelled on the 2009 Project cashflow.

Table 10.1d – Investor Payments– FEA Plantations Project 2009 (Option 4)

Investor Payments	First 3 years		Project life	
Establishment Fee	17,250	100%	17,250	39%
Land Sourcing Fee	0	0%	19,874	45%
Management Fee	0	0%	6,625	15%
Total	**17,250**	**100%**	**43,748**	**100%**

Option 5

The Establishment Fee per hectare for this projects is $7,187.50 ($23,000 per investment unit of 3.2ha in area) which is above average when compared to the Lonsec database average for forestry projects of $5,825. However, Investors must recognise that this Project is diversified in nature relative to the majority of the Projects from which this average is calculated. Prospective Investors must consider this when assessing the appropriateness of the Project's Establishment Fee.

Investors are liable to pay Land Sourcing and Management fees. These are deferred and are deducted before proceeds are distributed to Investors.

The Net Present Value (10%) of Investor costs in the Project is equal to $8,042. This can be compared to the forestry sector average in the Lonsec database of $7,262.

Table 10.1e is indicative of costs for Investors opting to participate in the Project over the full 26 year term.

The revenue and expense breakdown in Table 10.1e and Table 10.2e are modelled on the 2009 Project cashflow models provided by FEA Plantations.

Table 10.1e - Investor Payments ($/ha) - FEA Plantations Project 2009 (Option 5)

Investor costs ($/ha)	First 3 years		Project life	
Establishment Fee	7,188	100%	7,187	51%
Land Sourcing Fee	0	0%	5,103	36%
Management Fee	0	0%	1,488	10%
Pruning Fee	0	0%	381	3%
Total	**7,188**	**100%**	**14,159**	**100%**

* Note: Table 10.1e calculates Investor payment excluding the payment of optional woodlot insurance

10.3. Manager Revenues, Expenses and Profit

Investors must be aware that the Lonsec analysis of Revenues, Expense and Profits focuses on 'on-ground' expenditures and therefore may exclude cost items included in the DFE legislation. Therefore in Table 10.2a and Table 10.2b below, the Total On-Ground Forestry Expenditure refers only to expenses made directly in relation to the plantations as opposed to the more broad classification under the DFE legislation.

Lonsec has reviewed the cashflow model provided by FEA and has extracted the following revenue and expense information. The expenses stated are the cumulative total cost over the first three years and the life of the Project, and include the effect of inflation.

Options 1&2

Table 10.2a – FEA Plantations allocation of Investor Payments – FEA Plantations Project 2009 (Option 1)

Manager	First 3 years		Project life	
Establishment Costs	2,076	30%	2,076	18%
Maintenance Costs	736	11%	2,051	18%
FEA Plantations Management Fee	281	4%	413	4%
Land Sourcing Fees	623	9%	5,114	46%
Total On-Ground Forestry Expenditure	**3,716**	**54%**	**9,654**	**86%**
Taxation	955	14%	473	4%
Manager Net Cash Flow After Tax	2,229	32%	1,103	10%
Total	**6,900**	**100%**	**11,230**	**100%**

Table 10.2b – FEA Plantations allocation of Investor Payments – FEA Plantations Project 2009 (Option 2)

Manager	First 3 years		Project life	
Establishment Costs	2,076	30%	2,076	12%
Maintenance Costs	736	11%	2,188	13%
Pruning Costs	0	0%	2,050	12%
FEA Plantations Management Fee	281	4%	631	4%
Land Sourcing Fees	623	9%	6,470	38%
Total On-Ground Forestry Expenditure	**3,716**	**54%**	**13,415**	**79%**
Taxation	955	14%	1,080	6%
Manager Net Cash Flow After Tax	2,229	32%	2,520	15%
Total	**6,900**	**100%**	**17,015**	**100%**

As shown in Table 10.2a and 10.2b above, Lonsec has estimated that on an ***accounting*** basis, 86% and 79% of Investor contributions in Option 1 and Option 2, respectively, will be expended on on-ground forestry expenditure over the life of the Projects. Based on this analysis, FEA is targeting an after tax net cash flow margin of 10% and 15% on the total funds paid by the Investor.

However, Investors must be aware that these returns are calculated on an accounting basis, which does not take account of the time value of money and so cannot be directly compared with the forecast after tax Investor IRRs of 8.4% and 9.5% for Option 1 and Option 2, respectively.

Another method of assessing the reasonableness of the Manager's profit is to calculate the net present value (NPV) of cash flows, discounted at the Investors IRR. The NPV of the Manager's after-tax cash flow for Option 1 (at 8.4%) is $1,211 per hectare, and for Option 2 (at 9.5%) is $1,413 per hectare. These can be compared to the forestry sector average in the Lonsec database of $1,400.

The NPV of the manager's after tax cash flows in both Option 1 and Option 2 indicates that the returns from the Projects may be skewed toward the manager. In very broad terms it can be argued that the manager probably faces a higher overall level of risk than the Investor and should therefore receive a greater share of Project returns. The difficulty comes, however, in determining whether the apportionment of the returns between the two parties is appropriate and equitable. On this matter, Investors will need to make their own assessment, having regard to their particular circumstances.

Whilst it is often difficult to gauge the appropriateness of manager profit and Project expenditure, one reassurance that Investors in forestry projects now have, is that through the DFE legislation, the onus is on the manager to ensure promoter EBIT is no greater than 30%, or else promoter penalties will be incurred.

Option 3

Table 10.2c – Allocation of Investor Payments – FEA Plantations Project 2009 (Option 3)

Manager	First 3 years		Project life	
Establishment Costs	2,076	30%	2,076	15%
Maintenance Costs	838	12%	2,743	20%
FEA Plantations Management Fee	291	4%	482	4%
Land Sourcing Fees	623	9%	11,225	83%
Total On-Ground Forestry Expenditure	**3,829**	**55%**	**16,525**	**123%**
Taxation	921	13%	(912)	(7%)
Manager Net Cash Flow After Tax	2,150	31%	(2,129)	(16%)
Total	**6,900**	**100%**	**13,484**	**100%**

As shown in Table 10.2c, Lonsec has estimated that on an ***accounting*** basis, 123% of Investor contributions to the Project will be expended on on-ground forestry expenditure over the life of the Project. This indicates that FEA Plantations has either overestimated Project costs, or has underestimated Project revenue, resulting in Project outflows exceeding inflows. The calculations suggest the Manager is making a net loss of 16% over the life of the Project.

In discussions with FEA Plantations on this matter, Lonsec has been informed that the Project manager has taken a conservative view on Project inflows, particularly with regard to the potential for price increase for products produced in this Project. Subsequently, Lonsec investigated the timber prices needed to be obtained in order for the manager to 'break even'. This analysis determined that the manager needed to obtain stumpage prices 46% greater than the mid-case prices identified in Table 8.1b. This price increase is beyond that which Lonsec consider to be a realistic price range.

Another method of assessing the reasonableness of the Manager's profit is to calculate the net present value (NPV) of cash flows, discounted at the Investor's IRR. The NPV (7.3%) of the Manager's after-tax cash flow is ($255) per hectare, which again suggests that the Managers profit margin is lower per unit than that of an Investor. Relative to the forestry sector average NPV of $1,408 in the Lonsec database, the Manager's NPV is considered to be low.

One reassurance that Investors in MIS projects now have, is that through the DFE legislation, the onus is on the manager to ensure that at least 70% of the NPV of Investor contributions (project fees) is expended on 'Direct Forestry Expenditure' (namely the costs of establishing, tending, felling and harvesting trees). A manager violating this rule will be subject to promoter penalties

Option 4

Table 10.2d: FEA Plantations allocation of Investor Payments – FEA Plantations Project 2009 (Option 4)

Manager Costs (exc GST)	First 3 years		Project life	
Establishment Costs	2,566	14.9%	2,566	5.9%
Maintenance Costs	1,022	5.9%	4,680	10.7%
Pruning Costs	0	0.0%	7,338	16.8%
FEA Plantations Management Fee	359	2.1%	1,458	3.3%
Land Sourcing Fees	917	5.3%	10,938	25.0%
Total On-Ground Forestry Expenditure	***4,864***	***28.2%***	***26,980***	***61.7%***
Consulting Fees	300	1.7%	300	0.7%
Taxation	3,626	21.0%	4,940	11.3%
Manager Net Cash Flow After Tax	**8,460**	**49.0%**	**11,528**	**26.3%**
Total	**17,250**	**100%**	**43,748**	**100%**

As shown in Table 10.2d above, Lonsec has estimated that on an accounting basis, 62% of investor contributions will be expensed on direct forestry expenditure. Based on this analysis FEA is targeting an after tax net cash flow margin of 26% on the total funds paid by the Investor.

However, Investors must be aware that according to the DFE guidelines, the estimated manager profit and direct forestry expenditure is to be calculated on a Discounted Cashflow, or Net Present Value basis. Whilst Lonsec has not calculated this, modelling by FEA shows that the project should reasonably reach the 70% DFE threshold required under Division 394 of the Tax Law Amendment bill of the Income Tax Assessment Act 1997.

Whilst it is often difficult to gauge the appropriateness of manager profit and project expenditure, one reassurance that Investors in forestry projects now have, is that through the DFE legislation, the onus is on the manager to ensure promoter net cash flow (pre tax) is no greater than 30%, or else promoter penalties will be incurred

Option 5

Table 10.2e – FEA Plantations allocation of Investor Payments – FEA Plantations Project 2009 (Option 5)

Manager ($/ha)	First 3 years		Project life	
Establishment Costs	2,107	29%	2,107	15%
Maintenance Costs	769	11%	2,345	16%
Pruning Costs	0	0%	779	5%
FEAP Management Fee	288	4%	523	4%
Land Sourcing Fees	641	9%	6,644	47%
Total On-Ground Forestry Expenditure	**3,805**	**53%**	**12,398**	**87%**
Consulting Fees	19	0%	19	0%
Taxation	1,009	14%	522	4%
Manager Net Cash Flow After Tax	2,355	33%	1,220	9%
Total	**7,188**	**100%**	**14,159**	**100%**

As shown in Table 10.2e above, Lonsec has estimated that on an ***accounting*** basis, 87% of Investor contributions will be expended on on-ground forestry expenditure over the life of the Projects. Based on this analysis, FEA is targeting an after tax net cash flow margin of 9% on the total funds paid by the Investor.

Another method of assessing the reasonableness of the Manager's profit is to calculate the net present value (NPV) of cash flows, discounted at the Investor's IRR. The NPV (9.1%) of the Manager's after-tax cash flow is $1,035 per hectare, compared to the Lonsec database average of $1,368 for all forestry projects.

The NPV(9.1%) of manager after tax cash flows tends to indicate that the returns from the Project may be skewed toward the manager. In very broad terms it can be argued that the Manager probably faces a higher overall level of risk than the Investor and should therefore receive a greater share of Project returns. The difficulty comes, however, in determining whether the apportionment of the returns between the two parties is appropriate and equitable. On this matter, Investors will need to make their own assessment, having regard to their particular circumstances

11. Taxation

11.1. Product Ruling

The Australian Taxation Office (ATO) has issued the following Product Rulings in respect of the various Options for the FEA Plantations Project 2009:

Option 1: PR 2009/23
Option 2: PR 2009/24
Option 3: PR 2009/25
Option 4: PR 2009/26
Option 5: PR 2009/27

Product Rulings generally confirms that an Investor in this Project is not required to be assessed as carrying on a business in order to qualify for a deduction; and that it is reasonable to expect that the '70% DFE rule' will be satisfied. The Product Rulings confirm the tax deductibility for the Application Fee and other project expenses as set out in the Ruling.

A deduction will generally be available for the abovementioned Project expenses in the year of income in which the expenses are incurred by an Investor, subject to the particular circumstances of each Investor. Access to the Product Rulings is available from FEA free of charge or can be downloaded from either FEA's website at www.fealtd.com or the ATO's website at www.ato.gov.au.

Investors should be aware that these Rulings:

- Will only apply to applications made after the Product Ruling has been issued.
- Will only apply to Investors who have their applications accepted on or before 30 June 2009.
- Will only be a ruling on the application of taxation law (as it stands at the date of issue).

- Will only be binding on the Commissioner of Taxation if the Project is implemented in the specific manner provided in the Product Ruling.
- Is only valid for applications received and accepted up to and including 30 June 2009.

FEA Plantations has advised Lonsec that it has applied for a Product Ruling for post 30 June 2009 applications.

The ATO does not expressly or impliedly guarantee or endorse the commercial viability of the Project, the soundness or otherwise of the Project as an investment or the reasonableness or commerciality of fees charged in connection with the Project.

Interest incurred on borrowings in respect of a Investor's participation in the Project will, prima facie, be deductible, but subject to a number of conditions as outlined in the Income Tax Assessment Act.

The abovementioned Product Rulings confirm the deductibility of interest or other finance charges for Investors using finance provided FEA or the preferred financier.

Prospective Investors in FEA Plantations Project 2009 should, in all cases, seek their own taxation advice before investing in the Project.

11.2. History of compliance with previous Product Rulings

Lonsec has been informed by FEA that there have been no breaches of the terms and conditions of previous ATO Product Rulings with respect to any of FEA's previous MIS forestry projects.

12. Other Investor Benefits

12.1. Finance Packages

Investors are able to finance their Establishment Fees and Loan Application Fees through FEA or the Project's preferred financier, Commonwealth Bank of Australia. There are several loan options available through the preferred financier, ranging from a 12-month Principal and Interest (P&I) loan through to a 15 year P&I loan. For all loans with terms greater than 3 years, Investors in Options 2, 3, 4 and 5 can source loans with interest only periods of 3 years and investors in Option 1 can source loans with interest only periods of 2 years. Indicative interest rates for loans provided by CBA range between 9.4% and 11.35% (when loan amount is less than $100,000). Indicative interest rates for loan amounts of $100,000 or greater will be 125 basis points lower. An application fee of $250 or 0.25% of the loan amount (whichever is greater) is applicable. These fees may be capitalised into the loan amount and repaid as part of the monthly P&I payments. A Loan Service Fee of $20 per month per loan is also applicable.

Table 12.1 shows the fixed interest P&I finance packages available from CBA. Variable and interest only period loans are also available. Investors should contact FEA Plantations for further information on finance packages available.

Additional information on the finance packages available to Investors can be found on FEA's website or through contacting FEA directly.

Table 12.1 – Finance packages

Package	Interest Rate*	Repayment Terms
1 year	9.40%	Monthly P&I
3 years	10.05%	Monthly P&I
5 years	10.65%	Monthly P&I
7 years	10.90%	Monthly P&I
10 years	11.35%	Monthly P&I
12 years	11.35%	Monthly P&I
15 years	11.35%	Monthly P&I

*Current rates at the time of publication for fixed interest loans less than $100,000.

12.2. Reports and Inspections

Investors will receive annual reports on the plantations prepared by FEA Plantations. In addition, the Independent Forester for the Project will report annually on the extent to which FEA Plantations is conducting the Project in a proper and efficient manner.

Investors are able to visit the plantations that comprise the Project by prior arrangement with FEA Plantations. The cost of travel to the plantations will be at the expense of the Investor.

12.3. Carbon Credits

In the event that any commercial carbon trades are negotiated, the net benefit of these will be shared 50:50 between the Investor and the Responsible Entity.

Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: 8 May 2009
Analysts: Richard Ellis, Tom Bourne
Release Authorised by: Jim Blackburn

This report, dated **8 May 2009**, expires when the initial offer closes or after twelve months or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to his offer. Lonsec reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

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