Adviser Edge

FEA PLANTATIONS PROJECT 2008

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

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

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

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

The site assessment considers the following areas:
– suitability of the project site for the purpose intended;
– performance of previous project stages located within close proximity to the proposed site;
– management skills, qualifications, capabilities and experience; and
– associated project risks and their management.

Star Rating
Projects are awarded a star rating out of a possible five stars and placed on the Adviser Edge web site www.adviseredge.com.au

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Star ratings applied to 2007/08 projects are independent of previous year's star ratings.

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Report Date
8 April 2008.

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FEA Plantations Ltd (FEA Plantations) is providing investors the opportunity to invest in the hardwood and/or softwood plantation industries through the purchase of units in the FEA Plantations Project 2008 (the Project). The Project offers the choice of four investment options, which may be purchased separately or as a combined investment. The Option 1 investment is a 13-year rotation unpruned hardwood sawlog and pulpwood regime, while the Option 2 investment is a 16-year rotation pruned sawlog and pulpwood regime. The Option 3 investment is a 25-year rotation radiata pine (softwood) sawlog and pulpwood regime. Option 1 will be established on suitable sites in northeast NSW, southeast Queensland (subtropical regions), and Tasmania; Option 2 will be established almost exclusively in Tasmania with some capacity for development in northern NSW; while all Option 3 plantations will be established on appropriate sites in Tasmania. Option 4 is a diversified forestry offer providing a fixed ratio of four Option 1 woodlots, one Option 2 woodlot, and two Option 3 woodlots.

FEA Plantations will act as the Responsible Entity (RE) for this offer. FEA Plantations has been offering plantation investments since 1993, and as of the end of FY2007, had raised approximately $279.4 million for over 50,000ha of hardwood plantations. Forest Enterprises Australia Ltd (FEA) is the parent company of FEA Plantations, and will be responsible for the operational management of the Project. FEA, formerly Forest Enterprises Tasmania, was established in 1985. FEA was listed on the ASX in June 2000, and has an estimated market capitalisation of $253 million, based on its recent share price trading range.

FEA will establish a number of hardwood species (for Options 1 & 2), including *Eucalyptus nitens* (shining gum) in Tasmania, and *Corymbia citriodora* (spotted gum) and *Eucalyptus dunnii* (Dunn's white gum) in the subtropical regions. Alternative hardwood species, including *Eucalyptus saligna* (Sydney blue gum) or *Eucalyptus pilularis* (black butt) may also be considered. The planting region will determine the species selected for establishment. *Pinus radiata* (Radiata Pine) has been selected as the softwood species for the Option 3 investment.

The investment woodlots will each measure 0.5ha of plantable area, and will be established at an initial stocking density of 1,200 stems/ha for hardwood plantations, and 1,330 stems/ha for softwood plantations. Each plantation will be commercially thinned to enhance the growth and thus the final size of the remaining trees. It is expected that thinning harvests will be performed on the hardwood plantations at age nine, while the softwood plantations will be thinned at ages 13 and 18. FEA anticipates that the hardwood plantations will yield on average 27m³/ha/year over the 13-16 years, producing approximately 351m³/ha for Option 1 and 432m³/ha for Option 2. It is expected that the softwood plantations will yield close to 22m³/ha/year over the 25 years, producing a total yield of 551m3/ha for Option 3.

Investors are required to pay an establishment fee of $3,150 (ex GST) per woodlot, (or $21,000 per DFO unit of Option 4) and deferred payments for lease and management fees, which are deducted as a percentage (totalling 15% for Options 1 & 2, and 10% for Option 3) of harvest proceeds. Investors in Option 2 will also be invoiced for pruning costs, which is expected to occur when the trees reach the ages of two, four, and six. The majority of the woodlot returns should occur at the conclusion of each rotation when the trees are clearfell harvested. It is expected that smaller returns will also be generated when the plantations are commercially thinned. For each woodlot option, following the thinning and final harvest operations, the net harvest proceeds (less all deferred management and lease fees) will be pooled and distributed to the investors on a pro-rata basis.

It is expected the resources produced from the Project will be sold on a stumpage basis. Stumpage returns are generally determined from the gross sale proceeds, less all the relevant costs required to take the resources to the point of sale. These costs are generally attributable to harvesting, chipping, transportation and marketing.

Australian hardwood pulpwood is generally sold into Asian-Pacific markets (principally Japanese paper manufacturers), in the form of woodchips. Woodchip demand is linked to paper demand, which has been strongly correlated to GDP growth in developing countries. In Asian-Pacific markets, where many large developing countries are continuing to enjoy economic growth, the demand for paper is also rising. Consequently, the outlook for paper demand and thus hardwood woodchip demand remains positive. Softwood pulpwood is used in the manufacture of rough papers such as newsprint and kraft liner for cardboard manufacture. Softwood pulpwood can also be used to produce manufactured wood products such as medium density fibreboard (MDF) or particleboard. The majority of softwood pulpwood produced in Australia is processed and consumed domestically.

Australian hardwood and softwood sawlogs are generally processed into timber products for the domestic market. FEA expects that the hardwood sawlogs produced from Option 1 and 2 will be processed into structural and clear grade timber product, such as FEA's EcoAsh® and EcoAshClear® brands. The majority of the domestic structural grade timber consumption in Australia is facilitated by softwood imports. With a forecast slowdown in domestic production of structural sawlogs from both hardwood and softwood forests, and a seemingly strong growth forecast in domestic demand, the outlook for the hardwood and softwood sawlog produced from the Project is positive.

The potential investment returns will be affected by a number of Project factors including product price, costs, and yield. Based on an analysis of the Project assumptions provided by FEA, Adviser Edge has calculated potential IRR ranges of between 5.85% and 11.40% for Option 1, 6.86% and 11.92% for Option 2, 6.51% and 10.42% for Option 3, and 6.62% and 11.35% for Option 4. Adviser Edge has applied conservative Project assumptions to calculate potential investment returns. The IRR model assumes that investors are GST registered and does not include the cost of insurance or financing arrangements.

Based on the Adviser Edge investment ratings model, Option 1 has achieved a four star investment rating, Option 2 has achieved a four and a quarter star investment rating, and Option 3 has achieved a four star investment rating. Option 4 has been awarded a blend rating of 4.20 stars.

Option 1: Adviser Edge Rating ★★★★☆

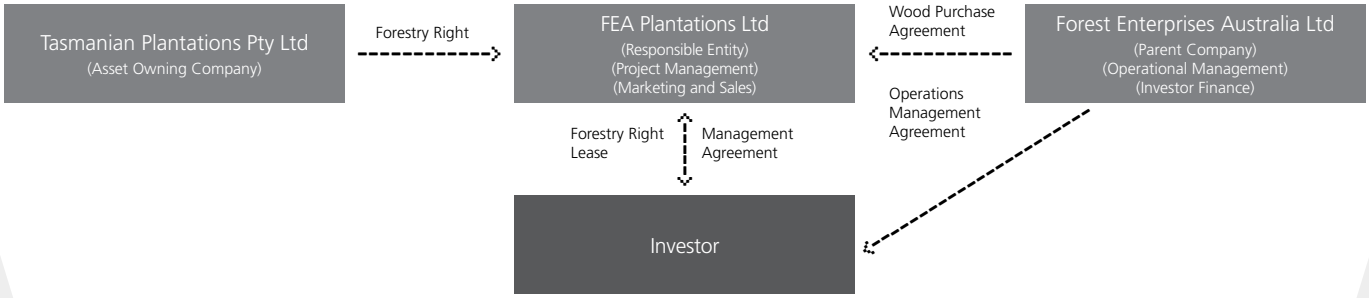
Option 2: Adviser Edge Rating ★★★★☆

Option 3: Adviser Edge Rating ★★★★☆

Option 4: Adviser Edge Blend Rating 4.20 stars

Project Details	
Project name	FEA Plantations Project 2008 Option 1, Option 2, Option 3 and Option 4
Responsible entity	FEA Plantations Ltd
Plantation locations	Tasmania, north-east New South Wales and south-east Queensland
Product Market	
Product	Sawlogs (for timber manufacture), and pulpwood (for pulp and paper manufacture) – Options 1 & 2 are hardwood species – Option 3 is a softwood species – Option 4 is a diversified forestry offer
Basis of sale	Investors will be offered a stumpage value for their trees
Target markets	Domestic and international (particularly Japan)
Investment Specifics	
Investment term	Approximately 13 years (Option 1), 16 years (Option 2) and 25 years (Option 3)
Option 4 components	Fixed ratio of seven woodlots (one DFO unit): – Four Option 1 Woodlots – One Option 2 Woodlot – Two Option 3 Woodlots
Investment unit size	0.5ha (per woodlot of Option 1, 2, or 3) 3.5ha (per DFO unit of Option 4)
Application fee	Options 1, 2, and 3 – $3,150 per woodlot (ex GST) Option 4 – $21,000 per unit (ex GST)
Management and lease fees	Annual payments for rent and management are not required; these fees are deferred and paid from harvest proceeds
Additional costs	Pruning costs (Option 2 only) and insurance
Close date for FY2008	30 June 2008
ATO product ruling	Option 1 – PR 2008/31 Option 2 – PR 2008/32 Option 3 – PR 2008/33 Option 4 – PR 2008/34
Potential investment returns	Option 1: 5.85% – 11.40% (pre-tax) Option 2: 6.86% – 11.92% (pre-tax) Option 3: 6.51% – 10.42% (pre-tax) Option 4: 6.62% – 11.35% (pre-tax)

Management Structure



Forest Enterprises Australia Ltd (Parent Company)

Forest Enterprises Australia Ltd (FEA), formerly Forest Enterprises Tasmania, was initially founded in 1985 to focus on the establishment of eucalyptus plantations in Tasmania. Since the establishment of its first plantation in 1987, FEA has expanded its business to become a leading Australian plantation manager, with over 50,000ha of hardwood plantations under management on behalf of investors. FEA has also developed into a vertically integrated timber company covering a wide range of forestry management and processing.

For all intents and purposes, and unless otherwise stated, this project report refers to FEA in the capacity of parent company and in reference to the activities of any underlying subsidiary.

FEA was listed on the ASX in June 2000, and has a market capitalisation of approximately $253 million based on its recent share price trading range. ITC Ltd, a wholly owned subsidiary of the Futuris Corporation Ltd, currently owns a 30.7% strategic interest in FEA and is the largest shareholder of the company. The company's core income is derived from its two wholly owned subsidiaries FEA Plantations Ltd (FEA Plantations) and FEA Timber Pty Ltd (FEA Timber).

FEA Plantations is the Responsible Entity (AFSL number 243515), for the group's MIS plantation forestry business. FEA Plantations manages plantation investments on behalf of 9,000 investors; these plantations are situated throughout Tasmania, northern New South Wales and southern Queensland. FEA Timber manages the production and marketing of FEA's eucalypt plantation hardwoods and other timber products.

In recent times, FEA has taken significant steps towards becoming a fully integrated forest products company. The development of timber processing operations at Bell Bay and the establishment of a 10-year supply contract for softwood sawlogs in Tasmania are two key achievements that will reduce FEA's reliance on MIS to drive profit growth in the future. FEA expects to continue to grow from its 8.7% Tasmanian timber market share and capitalize on its unique market positioning with sawn timber developments.

Adviser Edge believes that vertical integration in forestry MIS companies is essential to managing the conflict of interest that may arise between seeking revenue for shareholders of the management company, and seeking returns for the investors in the underlying products. Vertical integration generally refocuses the profit objectives of the management company, helping to create and develop strong markets for the investors' resources.

Board of Directors – Forest Enterprises Australia Ltd

Director	Credentials	MIS	Director
William Edwards – Chairman	★	★	★
Anthony Cannon – Executive	★	★	★
Michael Williams – Non-Executive	★	★	★
Desmond King – Non-Executive	★	★	★
Leslie Wozniczka – Non-Executive	★	★	★
Vincent Erasmus – Non- Executive	★	★	★
Donald Taylor – Non-Executive	★		★

★ = Personnel with the relevant experience.

Adviser Edge believes that the FEA Board of Directors possesses an adequate array of skills and experience, which will enable the company to fulfil its role as manager of MIS projects.

Corporate Governance and Reporting

Adviser Edge has reviewed the corporate governance protocols and procedures for FEA and believes they are in line with industry best practice, and that they are sufficient for a company of this size and operational structure.

Financial Performance (Forest Enterprises Australia Ltd)

Key Financial Data* – As at 30 June		
Financial Profitability	2007	2006
Revenue ($ million)	101.8	85.1
Net profit ($ million)	21.5	21.0
Profit margin (%)	21.1	24.7
ROCE (%)	9.8	14.3
ROE (%)	7.5	11.3
Market Measures**	2007	2006
EPS (basic/cents)	6.8	7.7
P/E ratio	10.3	8.6
DPS (cents)	2.0	1.5
Dividend yield (%)	2.9	2.3
Dividend payout ratio	0.3	0.2
Financial Liquidity/Solvency	2007	2006
Net working capital ($ million)	20.4	2.9
Current ratio	1.18	1.04
Quick ratio	0.83	0.67
Debt to equity ratio	0.54	0.60
Gearing (%)	13.0	6.0

Source: Forest Enterprises Australia Ltd.

*Historic performance is not a reliable guide for future performance.

**Share price used to calculate FY2007 ratios is $0.70 (year end close). Share price used to calculate FY2006 ratios is $0.66 (year end close).

Operational Highlights FY2007

– Overall revenues up 19.6% to $101.7 million for FY2007.
– MIS sales flat at $60.2 million.
– Completed a $62 million capital raising in June 2007.
– FY2007 fully franked dividend up 33% to 2.0 cents per share.
– Signing of 10-year supply contract for purchase of approximately 290,000 tonnes (per annum) of softwood sawlog.
– Site purchase for the development of a new sawmill in Bell Bay, Tasmania.

Adviser Edge has reviewed the financial statements of FEA and has concluded that they are in a strong financial position as at the beginning of FY2008. Adviser Edge sees no reason why FEA should not continue with strong financial performance, and believes the company has a business strategy that should enable it to maintain a good financial position well into the foreseeable future.

Effect of Changes to MIS Industry

In 2007, the Commonwealth Government announced its intention to change the laws that govern the tax treatment of forestry and non-forestry MIS schemes.

On 6 February 2007, the government announced changes to the tax treatment of non-forestry-related MIS projects beyond FY2007. Subsequently on 27 March 2007, the Australian Taxation Office (ATO) announced its intention to apply its current interpretation of the law to non-forestry MIS offers submitted for assessment in FY2008 while a legal test case proceeds through the courts.

The purpose of the case is to test the previously accepted principle that MIS investors are 'carrying on a business', a principle that entitles investors to deduct any ATO-prescribed portion of their investment outlays against their assessable personal income. Irrespective of the outcome, the decision is not expected to adversely affect non-forestry MIS offers with ATO product rulings issued in FY2008.

Adviser Edge considers that the proposed changes to the tax treatment for non-forestry MIS projects should not negatively impact on the activities of FEA, as the company operates exclusively in the forestry MIS market.

In July 2008, the tax treatment of forestry MIS will change; all new ATO Product Rulings will be required to comply with the *Direct Forestry Expense 70:30 rules*. These adjustments to the tax treatment of forestry-related MIS are based around the requirement for project managers to prove to the ATO that at least 70% of the investment application fees will be spent directly on forestry operations (as defined by legislation), in order for investors to be eligible for a 100% statutory tax deduction. Additionally, the new rules allow for forestry MIS interests to be traded after being held for four years, opening up the possibility for liquidity on a secondary market.

The changes to the forestry MIS tax treatment should not affect FEA, provided that they can continue to prove that at least 70% of the application fees will be spent on direct forestry expenses. The development of a secondary market trading platform for forestry would benefit investors in long-term forestry projects, (such as Option 3), by providing potential liquidity.

FEA Plantations Ltd (Responsible Entity/Project Manager)

FEA Plantations has overall responsibility to investors for the operations of the Project, which includes the establishment, management services, marketing and harvesting of the Project. As Responsible Entity, FEA Plantations delegates all operational management to FEA Ltd under an operational management agreement.

FEA Plantations has an excellent history in the establishment and maintenance of hardwood plantations in Tasmania and eastern mainland Australia. FEA plantations has been offering plantation investments since 1993, and as of the end of FY2007 had raised approximately $279.4 million for over 50,000ha of hardwood plantations.

Past Performance

The performance of FEA Plantations' first two forestry investment offers (1993 and 1994) are looking likely to deliver returns that will meet (and possibly exceed) investor expectations, and the average yield for each project should exceed the original PDS forecasts. The actual 1993 project figures will not be available until well into 2008, although pre-harvest inventory figures are showing that the final harvest will yield an average mean annual increment of approximately 30m³/ha/yr. Some of the younger projects, including the 1995, 1997, and 1999 plantations, are showing mid-rotation growth rates that may not reach PDS forecasts. However, as there are still many years until final harvest for these projects, an improvement in rainfall and management techniques could result in growth rates increasing, and the projects may still achieve the forecast yield figures. Furthermore, developments in value-add processing could lead to high prices being paid for timber produced from these earlier project; this could help offset any potential underperformance in yield.

Forest Enterprises Australia Ltd (Operational Management)

Under the management agreement, FEA has responsibility for the operational management of the FEA Plantations Project 2008, including site acquisition, site preparation, planting, weed management, fertilising, and other silvicultural and management applications. While FEA has a professional forestry team to undertake much of the planning and supervision of operations, they will employ external contractors to undertake the work as required. Under such arrangements, contractors are obliged to work within FEA's Environmental Management System (EMS) and workplace safety guidelines.

Senior Management – Forest Enterprises Australia Ltd

Key Personnel	Credentials	Industry	MIS
Anthony Cannon – Director, Forestry Services	★	★	★
Andrew White – Chief Executive Officer	★	★	★
Fergus Leicester – CFO/Company Secretary	★	★	★
Ross Barlow – General Manager, FEA Timber	★	★	
Doug Massey – General Manager, Strategic Development	★	★	
Mike O'Shea – General Manager, Business Development	★	★	★
Chris Barnes – General Manager, Plantation Operations	★	★	★
Kristen McPhail – General Manager, Sales and Marketing	★	★	★
Andy Corbould – Manager, Forestry Services	★	★	★

★ = Personnel with the relevant experience.

FEA's senior management team has changed slightly since their last project offering. Ross Barlow (General Manager FEA Timber) and Doug Massey (General Manager Strategic Development) strengthen the FEA management team, having joined FEA as a full time employee over the past year. Prior to this, Doug was based in Japan and employed with SmartFibre, a joint venture between ITC and FEA. The other notable addition to the team is Chris Barnes, who has assumed the role of General Manager Plantation Operations. Chris brings with him over six years' experience within the MIS sector, working for Gunns Ltd within their plantation division and more recently adding the role of Walnut Project Manager to his plantations duties. Kristen McPhail was recently appointed as General Manager Sales and Marketing for FEA. Kristen has been employed for approximately three years with FEA, concentrating on the MIS marketing activities of the group. Kristen contributes over ten years marketing experience in the agribusiness and forestry MIS industry.

Adviser Edge believes FEA's senior management have the credentials and experience required to manage the Project.

Independent Consultants

Expert's Name	Company	Focus
Gerry Cross	Van Diemen Forestry Consultants Pty Ltd (VDFC)	Forestry and marketing
Brent Murphy	KPMG	Tax ruling

FEA has engaged two separate experts, Van Diemen Forestry Consultants Pty Ltd (VDFC) and KPMG, to provide independent advice to the Project for 2008. KPMG has been engaged to provide an independent taxation opinion, while VDFC has been engaged to provide an independent forester's and market report.

Adviser Edge has been informed that there are no conflicting interests between VDFC, KPMG and FEA or any underlying subsidiary of FEA.

The independent forester, VDFC, has provided a report outlining some of the key assumptions required for determining the potential investment returns for each option within the Project. VDFC will have an ongoing reporting role within the Project, to ensure that future land acquisitions comply with land selection criteria. VDFC will also produce a summary management report on an annual basis, providing an opinion as to whether FEA has carried out its services under the management agreement in a proper and timely manner. A copy of this report will be sent to the compliance committee and forwarded to investors in June of each year.

Adviser Edge has reviewed the annual report provided by VDFC and believes they provide an excellent level of feedback for investors who wish to follow the performance of their investment.

VDFC has almost 40 years experience in the international plantation and forestry industry, with 33 years in the Australian forestry industry. VDFC has a sound knowledge of eucalypt and softwood management and has advised that the price, yield and quality assumptions used by FEA Plantations in the offer documents are considered reasonable and achievable.

Adviser Edge considers VDFC to be highly experienced and appropriate for providing an independent unbiased verification of the Project assumptions. It is recommended that investors read the independent forester's report for further information.

Key Risks – Management

While Adviser Edge believes that investors are sufficiently protected from management risks for this project, investors ought to be aware of the management risks associated with MIS projects of this nature. Two key risks identified by Adviser Edge are manager longevity and manager competence.

– There is the risk that the management entities may not maintain longevity through financial standing and therefore could be forced to liquidate. In such cases, investors may incur additional costs associated with appointing a new manager and key counterparty agreements.
– There is also the risk that the manager may not complete the required tasks as set out in the management agreements due to incompetence or lack of motivation. This may impact on the performance of the Project.

Adviser Edge believes that the management risk associated with this project is low, given the healthy financial state of FEA and sound corporate governance principles utilised by the company and the Project.

Investment Specifications	
Locations	Tasmania (Options 1, 2, & 3), north-east New South Wales (Options 1 & 2) and south-east Queensland (Option 1)
Unit size	Each unit in either Option 1, Option 2 or Option 3 is 0.5ha (one woodlot)
Option 4 Offer	Fixed ratio of seven FEA Plantations Project 2008 investments (one DFO unit): – Four Option 1 Woodlots – One Option 2 Woodlots – Two Option 3 Woodlots
Number of trees per woodlot	600–665 seedlings per woodlot at planting
Minimum application	One woodlot (can be any option)
Liquidity	Illiquid although there is the potential for a secondary market developing
Insurance	Optional (compulsory when using finance for longer than 12 months)
Investor finance provider	Finance available through FEA

Investment Structure

FEA Plantations is offering investors the opportunity to invest in the hardwood and/or softwood plantation industry through the purchase of units in the FEA Plantations Project 2008 (the Project). The Project offers investors the choice of three options, which may be purchased separately or as a combined investment. The investment units for each option will involve the development of 0.5ha of forested land. These units are called woodlots.

Woodlot Option 1 – Unpruned Hardwood (Option 1)
The Option 1 investment will involve the production of hardwood pulpwood and sawlogs for the domestic and export markets. It is expected that the majority of the sawlog component will be manufactured for the production of structural-grade hardwood lumber for use in the domestic construction markets (e.g. FEA's EcoAsh® brand), while the pulplogs will be manufactured and exported as woodchips for use in the pulp and paper industry. Option 1 is expected to run approximately 13 years from the planting date. FEA has indicated that the bulk of Option 1 will be established in north-east New South Wales (60%) and south-east Queensland (5%), with a component in Tasmania (35%).

Woodlot Option 2 – Pruned Hardwood (Option 2)
The Option 2 investment will involve the production of hardwood pulpwood and pruned sawlogs for the domestic and export markets. A selection of the Option 2 trees will be pruned for the production of higher-value logs that have the potential to yield clear grade lumber. It is expected that the sawlog component will be manufactured into structural and high-value clear grade lumber for use in domestic construction markets (e.g. FEA's EcoAsh® and EcoAshClear® brands), while the pulplogs will be manufactured and exported as woodchips for use in the pulp and paper industry. Depending on growth conditions, FEA intends to prune the Option 2 woodlots when the trees reach the ages of two, four and six. This corresponds to project years three, five, and seven. The pruning quality will be audited to the standards of the Australian Forest Growers (AFG) Pruned Stand Certification (or similar). The term of Option 2 is approximately 16 years from the planting date. FEA has indicated that Option 2 will be established predominately in Tasmania (no less than 80%), with the balance planted in north-east New South Wales.

Woodlot Option 3 – Radiata Pine (Option 3)
The Option 3 investment will involve the establishment, management, harvesting, and sale of radiata pine pulpwood and sawlogs for the domestic and export markets. It is expected that a proportion of the sawlog component will be manufactured into structural grade timber for construction markets (e.g. BassPine®). The term of the investment is approximately 25 years from the planting date. FEA will manage the plantations so that trees which demonstrate good form in the early years will be grown for the full term of the investment. To promote the growth of these trees, Option 3 will be commercially thinned when the trees are approximately 13 and 18 years of age. Thinning reduces the competition between trees in the plantation and generally results in increased growth for the remaining trees. All of the Option 3 plantations will be established on appropriate sites in Tasmania.

Woodlot Option 4 – Diversified Offer (option 4)
Option 4 offers investors a fixed ratio investment into Options 1, 2 and 3 of the FEA Plantations Project 2008. Each DFO unit consists of four Option 1 woodlots, one Option 2 woodlots, and two Option 3 woodlots. Each woodlot for Options 1, 2 and 3 is 0.5ha in area; consequently, one Option 4 DFO unit is 3.5ha.

For each woodlot option, following the thinning and final harvest operations, the net harvest proceeds (less all deferred management and lease fees) will be pooled and distributed to the investors on a pro-rata basis.

Fee Structure

The fees outlined in the following tables relate to an investment made on or before 30 June 2008.

Initial and Deferred Fees (All Options)

Payment Type	Cost per Woodlot or Unit(ex GST)*
Establishment fee Options 1, 2, and 3	$3,150
Establishment fee Option 4	$21,000
Deferred lease fee	12% of harvest proceeds for Option 1 & 2 7% of harvest proceeds for Option 3
Deferred management fee	3% of harvest proceeds for Options 1, 2, and 3

*Harvest proceeds are determined from the gross proceeds when the trees are sold on a stumpage basis, and before any deferred fees are deducted.

Ongoing Fees (Option 2 only)

Payment Type	Cost per Woodlot (ex GST)
Year 3 pruning* (FY2011)	$360
Year 5 pruning (FY2013)	$380
Year 7 pruning (FY2015)	$400

*Pruning is likely to take place when the trees reach the ages of 2, 4, and 6, corresponding to project years 3, 5, and 7. This assumes planting take place approximately one year after application.

The establishment fee of $3,150 (ex GST) per woodlot is payable specifically to cover land preparation, seedling supply, planting and other administrative costs associated with establishing the Project. Lease and management fees will be deferred and paid as a percentage of the harvest proceeds (totalling 15% for Options 1 & 2, and 10% for Option 3). The harvest proceeds will be determined by the stumpage sale proceeds received by investors before any deferred fees are deducted.

Stumpage is generally determined by deducting all the relevant costs required to take the resources to the point of sale from the gross sale proceeds. For example, if the point of sale were free on board (FOB), then the stumpage would be determined by first converting the FOB price and the relevant costs into a consistent unit of measurement. For example, FOB is normally given in $/bone dry metric tonnes of woodchips delivered ($/BDMT) where most harvesting costs are given in $/green metric tonne of wood harvested ($/GMT). To convert the FOB from $/BDMT to $/GMT, a number of considerations need to be factored in, including moisture loss (from when the trees are harvested to when they are loaded on the boat) and volume losses incurred during the chipping process. Once the measurement units are consistent, the stumpage value can be simply calculated by deducting the various costs of harvesting, transport, loading and chipping from the FOB price.

Option 2 investors (which includes Option 4 investors) will also need to pay pruning fees in the first six years of the Project. The pruning fees have been set in present-day figures (ex GST), and are: $360 for Project year three, $380 for Project year five, and $400 for Project year seven. These fees will increase at a rate equivalent to the prevailing Australian Consumer Price Index (CPI).

Fee Analysis

In FY2007-08, many new forestry MIS product rulings will be issued under a new tax legislation, which allows for some expenses relating to the ongoing management of the plantation to be pre-paid in the application fee and still be tax deductible. As such, it is difficult to validate the suitability of application fees by way of a comparative analysis (against peer projects), as the size of some application fees will depend on how much ongoing expenditure is pre-paid. The best way to confirm the suitability of these fees is to request (from the RE a breakdown of how the fees will be used. The fees can also be considered in the context of investment returns and the risk sharing nature of the fee structure. These factors are discussed further in the Investment Analysis section of this report.

The application fee for the Project remains unchanged from the previous offering (FEA Plantations Project 2007), which at the time was considered to be competitive against peer projects on a per-hectare basis. FEA Plantations has provided a breakdown of the application fee, which shows that development expenses account for a large portion of the total establishment fee (approximately 85%). The level of administrative and other project related costs are considered low when benchmarked against other MIS projects researched by Adviser Edge.

The application fee for one DFO unit represents an approximate 4.8% reduction in fees compared to the cost of purchasing seven woodlots of Option 1, 2, or 3 at $3,150 each ($22,050 total). Adviser Edge's analysis found that the establishment services fees for Options 1, 2 and 3 were reasonably competitive. The 4.8% reduction in the total cost for one DFO unit further enhances the competitiveness of an investment in Options 1, 2, and 3.

The management and lease fees for each option will be deferred and paid as a percentage of the harvest proceeds. In the ordinary course of business, the ongoing expenses for managing pulpwood plantations include weed and pest control, soil nutrition, fire risk management and stand monitoring. Since ongoing fees are linked to the performance of the Project, it is not known whether these fees will provide sufficient – or excessive – revenue to cover the costs involved with ongoing management and rent. In the absence of a performance fee, the deferred fees provide incentive for the manager to achieve goods yields and high prices for the Project resources. These fees should also be considered in the context of investment returns and risk management. Please see the Investment Analysis section for further details.

Additional Information

Product Ruling
In the 2007/08 financial year, FEA Plantations applied to the Australian Taxation Office (ATO) for a product ruling that will outline the ATO-approved tax treatment of an investment in the FEA Plantations Project 2008. In late March 2008, Adviser Edge was informed that the FEA's 2007/08 Product Ruling application for the Project had been successful, and the following product ruling numbers issued for the woodlot options:
Option 1 – PR 2008/31
Option 2 – PR 2008/32
Option 3 – PR 2008/33
Option 4 – PR 2008/34

Commissions
FEA Plantations is prepared to pay commissions to licensed financial advisers and appointed representatives not exceeding 8% of the subscription fees raised. Additional payments may also be made to financial advisers to cover the costs associated with administration or marketing. FEA Plantations has indicated that advisers can rebate investors all or part of the commissions paid.

As a general note, Adviser Edge recommends that investors request the disclosure of all commissions, marketing and administrative cost allowances paid to advisers and appointed representatives.

Default
If an investor is in default, the Project agreements may be terminated immediately. In such circumstances, there may be no compensation and the investor's interests in the Project may be forfeited. A default will occur if an amount due under the Project agreement(s) is in arrears for more than 30 days. If default does occur, all monies payable under the Project agreements will become due and payable immediately. Default can only occur where ongoing payments are required; these are investors who elect to use finance and those who invest in Option 2.

Liquidity
The Project is considered illiquid with no established secondary market. An investor may exit investments in the Project by transferring or selling their interests in the Project in accordance with the Project agreements. Recent changes to the tax laws governing the exchange of forestry MIS interests now allow investors to trade their woodlots after holding them for a period of at least four years. Investors should seek professional advice if considering a sale of their interests.

Adviser Edge has been informed that FEA Plantations has obtained a low volume trading licence from ASIC to assist any investors who wish to trade their forestry MIS interests on a secondary market. Adviser Edge believes the key impediment to the development of a successful secondary market is the problem of determining the market value of the interests given the young age of the trees and the pooling of investor proceeds.

Insurance
FEA will maintain, at its own cost, public liability insurance up to a value of $10 million. While crop insurance is optional for investors, investors obtaining finance through FEA for a term of greater than 12 months are required to take out full replacement cost insurance for the duration of the loan.

FEA has indicated that they will assist in arranging suitable insurance cover on behalf of investors. FEA will offer the choice of two insurance packages – basic insurance and full replacement insurance. Investors are required to pay FEA a 10% administration fee for obtaining insurance on their behalf.

As a general note, Adviser Edge strongly recommends that investors insure their woodlots. While investors' harvest proceeds are pooled, should any woodlots be damaged, these may be removed from the pool and the owning investors may not receive income from their investments. Insurance should help to protect investors from this risk.

Finance
FEA is providing 12-month interest free finance for investors, with principal payments required monthly. Longer-term finance options are also available through FEA. Basic loan details are provided below and interested investors should contact the finance provider for full loan terms and conditions, including associated fees and charges.

Finance Options

Lending Institution	Finance Option	Term	Interest Rate
Forest Enterprises Australia Ltd	Monthly principal instalments	12 months	N/A
	Monthly instalments of P&I*	3 to 15 years	8.50% to 11.00%

*Principal and interest.

Adviser Edge visited FEA's Tasmanian operations on 5 December 2007, and was accompanied throughout the visit by Andy Corbould (Manager – Forestry Services, FEA).

The tour began with a visit to FEA's Hewsaw milling operations, currently producing EcoAsh® timber for the Tasmanian construction market. Adviser Edge was also introduced to Dr Trevor Innes (Manager – Timber Technology, FEA Timber) and given an overview of FEA's research developments into the fundamental timber characteristics of some of the species being established in FEA's MIS plantations.

Adviser Edge was taken to FEA's new $70m mill development site. The development involves the implementation of a highly sophisticated Optimil (www.optimil.com) processing facility. During the visit, the mill was under development, with an anticipated completion of early 2008. At the time of publication, the mill was on target for opening in early April 2008.

The Optimil will significantly increase FEA's milling capacity in the northern region of Tasmania. The technology of the mill will allow for a wide range of log sizes to be milled and will produce more products than are currently being processed by the Hewsaw. FEA has indicated that the milling capacity of the facility could potentially reach one million cubic metres of log intake per year, making it one of the largest sawlog milling facilities in the country.

The visit concluded with an inspection of some of FEA's northern plantations previously planted under MIS schemes. The first plantation inspected was The Tasmanian Forests Trust No 1, planted in 1993, and due to be harvested in 2008. The trees were showing excellent form and size, and preliminary inventory information is showing that the plantation should yield above the original forecasts for the project. The remainder of the inspection included visits to recently planted sites such as the 2007 project, the 1998, 2000, and 2004 plantings, and a drive through some radiata pine plantations.

The visit demonstrated FEA's commitment to value-add processing infrastructure, FEA's excellent operational capabilities as a forestry manager, and the potential for successful, high-yielding forestry development in the northern areas of Tasmania.

Adviser Edge toured the FEA's operations in the Northern Rivers region of NSW on 23 January 2008. The visit provided an opportunity to meet with key operational staff, and to inspect the growth of various age classes and species planted in the subtropical region. Key management and operational aspects were also discussed, including the proposed development of processing facilities in Casino. Accompanying Adviser Edge for the inspection were Chris Barnes (General Manager – Plantations), Hugh Harris (Plantation Manager for New South Wales and Queensland), Mike O'Shea (General Manager – Business Development) and Doug Massey (General Manager – Strategic Development).

Between November and January, significant rainfall was experienced in the Northern Rivers region, with some areas receiving over 450mm. The wet conditions generally prevented FEA from accessing the plantation sites to perform weed control and other important operational activities. As a result, weed growth on many of the plantation sites was prolific, particularly where the trees were young and canopy closure had not yet taken place. FEA indicated that they would commence a dedicated weed control program when weather permitted. Surprisingly, there was no evidence of major waterlogging or erosion at any of the plantation sites.

Most of the older plantations demonstrated strong and uniform growth, with good form and size. Growth and development were generally consistent across all species, however there was some indication that the growth of Dunn's white gum was less advanced when grown on sites with heavier and poorly drained soils. There was also evidence that a species of psyllid insect, which in large populations causes major defoliation of trees, had affected the growth and development of some stands of Dunn's white gum. A strong remedial program, which included multiple spray applications, had been successful in preventing further attacks.

The day concluded with an inspection of some proposed sites for sawmill infrastructure development. It is expected that FEA's existing Hewsaw mill will be relocated into the Northern Rivers region once the Optimil site in Bell Bay is fully functional. Each of the potential sites appeared to be sufficient in size, and all were close to the main Sydney-Brisbane train line.

Based on these and previous site inspections, Adviser Edge has strong confidence in the ability of FEA to develop large-scale hardwood forestry plantations in both temperate and subtropical environments.

Planting Region

FEA Plantations intends to develop hardwood plantations (Option 1 & 2) in selected regions of Tasmania, north-east New South Wales and south-east Queensland, while the radiata pine plantations (Option 3) are likely to be established exclusively in Tasmania. Alternative regions in Australia may also be selected if the projected growth rates and the market potential within those regions align with targeted Project outcomes.

Northern Tasmania supports a large timber industry, with extensive plantation operations and forestry infrastructure. Northern Tasmania experiences a cool maritime climate with mild summers, and cool and wet winters. Rainfall is winter-dominant, and the Scottsdale region, where it is expected that the majority of the Tasmanian plantations will be established, has an annual rainfall of approximately 1,027mm. The area is characterised by deep and fertile soils, which are considered ideal for forestry plantations.

In north-east New South Wales and south-east Queensland, the forestry industry has grown significantly in recent years, with high rainfall, fertile soils and long growing seasons providing ideal conditions for plantation development. In general, north-east New South Wales and south-east Queensland both experience a subtropical climate with warm summers and mild winters. While rainfall is summer-dominant, it is highly variable throughout the seasons, and is more concentrated around coastal regions. The southern reaches of north-east New South Wales, including Walcha, experience a more temperate climate, with short, mild summers, and long, cool winters.

Species/Varieties

The planting region will determine the species selected for establishment. FEA will establish a different hardwood species for woodlot Options 1 and 2. *Eucalyptus nitens* (shining gum) will be planted in Tasmania, while *Corymbia citriodora* (spotted gum) and *Eucalyptus dunnii* (Dunn's white gum) will be established in the subtropical regions. Alternative eucalypt and corymbia species, including *Eucalyptus saligna* (Sydney blue gum) or *Eucalyptus pilularis* (black butt) may also be planted on a smaller scale. *Pinus radiata* (Radiata Pine) has been selected as the most suitable softwood species for the woodlot Option 3.

Shining gum is a well-proven plantation species in Tasmania, with rapid early growth and desirable characteristics for both sawlog and pulpwood uses. Radiata pine is also proven as an ideal plantation species, with strong growth and survival rates across a broad range of sites.

While the growth and quality characteristics of the subtropical species are not as well recognised, trials are showing promising results for both sawn timber and pulpwood applications for trees harvested from plantations. It is important to note that some of these species, in particular the spotted gum, have been harvested from natural stands for many years, and have demonstrated excellent wood properties for manufacture in high value lumber markets.

FEA will obtain improved seed for both shining gum and radiata pine. FEA is currently undertaking research and development into the genetic improvement of seed in an attempt to increase tree performance, particularly for the subtropical species. FEA employs a dedicated seedling manager to supervise the seedling procurement program.

Site Selection

The site selection protocols for the hardwood and softwood plantations are very similar. Before being selected, all sites are routinely examined for soil depth and drainage, and the independent forester will provide a report to the compliance committee on the suitability of the land for the Project. The following criteria form the basis of FEA's site selection:

– A minimum of 20ha in size or adjoining areas of existing development;
– A mild climate and a minimum annual rainfall of 800mm – 1,000mm for Tasmanian sites;
– High solar insulation levels with a minimum annual rainfall of 800mm for sites in New South Wales and Queensland;
– No low-lying areas prone to frost and/or flooding; and
– Proximity to major arterial routes and major ports.

Adviser Edge is confident that the site selection strategy employed by FEA will lead to successful plantation development. With appropriate ongoing management and favourable environmental conditions, these plantations should provide yields that align with project objectives.

Site Development and Establishment

To maximise the competition-free period for the newly planted seedlings, where feasible sites will be sprayed with a knockdown herbicide mix prior to cultivation. First rotation sites will be ripped, mounded and ploughed to encourage root growth. Following cultivation, mounds will be sprayed with a mixed knockdown and residual herbicide spray to reduce the establishment and growth of competing weeds. It is expected that multiple inter-row spray applications will be needed to control weeds on sites located in the subtropical regions of New South Wales and Queensland.

The initial stocking density used by FEA will vary according to the species planted, site productivity and slope. FEA has proposed that most of the hardwood plantations will be developed at a stocking density of 1,200 stems/ha, while the softwood plantations will be established at an initial stocking density of approximately 1,330 stems/ha. Planting operations will take place when soil moisture at the plantation sites is at a level that should ensure high survival rates and uniform establishment. With this in mind, FEA anticipates that the majority of the planting operations will be performed during spring at Tasmanian sites, and during autumn at sites located in New South Wales and Queensland. FEA Plantations has indicated that a stocking guarantee will ensure that at least 90% of the original stocking rate is maintained in the first year after establishment.

Stand Management

Following establishment, FEA will monitor the plantations and will implement appropriate control measures if insect damage and weed invasion adversely impact the development and growth of the plantations. Each site will be analysed for nutrient deficiencies, and suitable fertilisers will be applied when necessary.

FEA has indicated that they have recently engaged a soil nutritionist to focus on improving the post-planting nutrition program used in the New South Wales and Queensland regions.

FEA will undertake thinning operations on the hardwood plantations around year nine of the Project, which will reduce the final stocking density to approximately 450-650 stems per hectare. It is expected that thinning will enhance the growth of the remaining trees by concentrating light and nutrient resources to fewer individuals. FEA has also forecast that investors will receive a commercial return from the pulpwood and sawlog produced from the thinning harvests. FEA will also undertake a pruning regime on the Option 2 woodlots to promote clear, knot-free wood by removing the lower branches. These operations will be undertaken between years two and six. It is intended that the pruning regime will result in the formation of clear wood in the lower part of the stem, which leads to higher value clear-grade lumber.

FEA anticipates that they will perform two thinning harvests on the softwood plantations, including a thinning in project year 13 to reduce the stocking density to 400-450 stems per hectare, and a thinning in project year 18 to reduce the stocking density to 300-350 stems per hectare. Like the hardwood plantations, it is expected that thinning will enhance the growth of the remaining trees, resulting in larger final trees.

FEA places a strong emphasis on monitoring the growth performance of new and existing plantations. Permanent sample plots (PSP) will be randomly scattered throughout the plantation sites to monitor growth and to provide information for use in future projects. The information accumulated from the PSPs will be especially valuable to FEA given that there is relatively limited information available on the growth potential of the hardwood species that are being established in the subtropical region.

Adviser Edge considers that FEA has the means and resources to provide robust management services on behalf of investors. FEA has significantly expanded its forestry team in the Queensland and New South Wales regions in recent years. Given that the company now manages more than 22,735ha of plantations in these regions, this approach is considered to be necessary to ensure that FEA continues to manage the plantations in the best interests of investors.

Project Infrastructure
Market opportunities and site productivity will dictate the harvesting windows (for thinning and clearfell) selected by FEA. FEA has indicated that the harvesting (including thinning), chipping and transportation operations will be outsourced to external contractors.

Northern Tasmania supports a well-established timber industry, and FEA has access to processing and exporting infrastructure for both structural sawlog and pulpwood timbers. FEA has indicated that the average haul distance for the majority of the Tasmanian sites will be approximately 163km from the forest to Bell Bay (location of the new Optimil facility and woodchip export facility).

Most of the plantation sites in the subtropical region are located a considerable distance from ports at either Newcastle or Brisbane. FEA has indicated that the average haul distance from all sites to Brisbane is 280kms. While this forest-to-port haul distance is considered high, the costs associated with these large cart distances are somewhat offset by the lower ocean travel required to take the woodchips into Japan, and the higher pulp yield and density of the subtropical species. Despite this, FEA will still need to develop centrally located milling infrastructure to target the higher value sawlog component. FEA has indicated that the average haul distance from the forest to intended processing centres for the subtropical sawlog component should be less than 100km.

Key Risks – Site and Silviculture

Adviser Edge considers that the strict site selection protocols employed by FEA will help to reduce the exposure of investors to risks associated with the plantation site environment. However, investors should be aware of the risks associated with the plantation site, some of which are discussed below.

Site Selection
There is a risk that the selected land may not be suitable for the specified plantation species. Even where strict controls are placed on land selection, there is a risk that the land may not perform to expectation.

Pests and Weeds
Insect damage and weed invasion can adversely impact on yield. Weeds can also affect growth rates through competition for water and nutrient supplies, or may act as a vector for unwanted insects or diseases. While the operation managers endeavour to limit the impact from pests and weeds, there is a risk that these control measures could fail to prevent damage to a plantation. Weed control will be particularly important in the subtropical regions, where climatic conditions result in a wider and more prolific weed spectrum than in a temperate environment.

Environment
Forestry is exposed to similar risks as those which are inherent in other agricultural production systems. Risks relevant to the timber industry include climate-related problems such as low rainfall, excessive heat, frost and wind, and seasonal aspects such as fire, pests and disease. These threats can be mitigated through good site selection.

Market Overview			
	Woodlot Option 1	**Woodlot Option 2**	**Woodlot Option 3**
Product type	Hardwood timber	Hardwood timber	Softwood timber
Primary use	Sawlog and pulpwood	Sawlog, veneer and pulpwood	Sawlog and pulpwood
Key target markets	Domestic, Japan, China and Korea	Domestic, Japan and China	Predominantly domestic
Major competitors	Domestic and international sawlog and pulpwood producers	Domestic and international sawlog producers; other substitute products	Domestic and international softwood producers

Given the long-term nature of forestry, it is difficult to accurately forecast the market conditions that will prevail when the trees are harvested. This is especially problematic for the softwood plantations, which are forecast to run for over 25 years.

To overcome this problem, Adviser Edge has analysed a macro-view for the future of hardwood and softwood forestry in Australia. In doing so, Adviser Edge has considered the historical development of softwood and hardwood plantations, and the key drivers of forest product consumption, both domestically and abroad. Adviser Edge has also considered major foreign producers of forest products and how they may compete against Australian producers in domestic and export markets.

For a more comprehensive industry and market analysis than provided in this section of the report, please refer to the Adviser Edge website (www.adviseredge.com.au) to download the hardwood and softwood industry overviews.

Industry

Plantation hardwoods are grown in Australia for a number of purposes, predominantly in short rotation regimes for the production of woodchips for the pulp and paper industry. The Australian forestry industry currently supports over 805,000ha of hardwood plantations nationwide. The rate of new plantings has risen significantly in the past seven years, which is principally due to a large increase in managed investment scheme (MIS) development. The majority of these short rotation hardwood plantations have been established in Western Australia, Victoria, and Tasmania, and to a lesser extent in South Australia and Queensland. It was estimated that 67,277ha of new area was planted to hardwoods during 2006, with MIS contributing to 86% of this new area. A similar area of new hardwood plantings is forecast for 2008. In the longer-term, the rate of new forestry development is expected to slow as green-field development opportunities decline and second rotation land becomes available.

Because of the high rate of hardwood plantation development in previous years, it is expected that hardwood timber production, particularly that of woodchips, will increase significantly in the forthcoming decade. However, in terms of total Australian hardwood production, this increase will be offset somewhat by a reduction in the harvesting of natural stands of hardwood.

The majority of softwood grown in Australia is *Pinus radiata* (radiata pine), a fast growing species favoured for its ideal workability and high permeability to preservative treatments. Used predominately in the building and furniture industries, radiata pine is generally grown in 25-30 year rotations. At present, Australia has about one million hectares of softwood plantations, predominately located in higher rainfall areas of New South Wales and Victoria. The total harvest of softwood in 2004-05, as measured by roundwood removals, was approximately 14.0 million m^3. In recent years, a slowdown in the establishment of new softwood plantations means that annual domestic supply will only increase slightly in the foreseeable future.

Market Overview

Hardwood Pulpwood

There are two key global markets for pulpwood trade: the European market, and the Asia-Pacific market. Australian hardwood woodchips are currently sold almost entirely into the Asia-Pacific region, particularly pulp and paper manufacturers in Japan, South Korea and Taiwan. Japan has traditionally dominated the Asia-Pacific woodchip trade, consuming nearly 90% of the pulpwood traded within the region, and 85% of Australian hardwood woodchip exports. Japanese importers are able to pay high prices for woodchips because of their unique and highly protected paper markets.

Domestic consumption accounts for a small and relatively stable proportion of the demand for hardwood products, although this is likely to change as pulp mills are developed in some key plantation forestry regions in Australia.

Hardwood Sawlogs and Veneer Logs
The Australian hardwood sawlog market has traditionally sourced timber from native forests and sold domestically. However, the harvest of these resources is becoming increasingly restricted due to the reduction of native harvest quotas by many State governments. In 2005-06, Australia's consumption of hardwood-sawn timber was estimated to have reached 1,278,000m³ with imports accounting for approximately 10% (130,800m³) (ABARE, 2006). The domestic high quality veneer market also relies on resources from native forests, of which access is also becoming increasingly restricted.

Softwood Sawlogs and Pulpwood
Softwood logs are generally sold as pulpwood or sawlogs. Pulpwood is used in the manufacture of rough papers such as newsprint and kraft liner for cardboard manufacture. Pulpwood can also be used to produce manufactured wood products such as medium density fibreboard (MDF) or particleboard. The majority of softwood pulpwood produced in Australia is processed and consumed domestically.

Softwood sawlogs are processed into a wide range of timber grades, the most important being the structural grades. The majority of structural grade timber sold in the Australian market is sourced from softwood plantations (mainly radiata pine). An overwhelming majority of softwood sawlogs produced in Australian forests are processed and consumed domestically.

Market Outlook

Pulpwood
Whilst Japan remains the major importer of woodchips in the Asia-Pacific market, China is a booming emerging market with solid demand growth in paper, board and panels. China sits well below most developed nations in per-capita paper consumption, but with high GDP growth forecast to continue for the next five years, China can be expected to become a significantly higher paper and/or woodchips consumer. China's capacity to import woodchips may be limited by the rate of development of new pulp mills, as well as its ability to compete in open competitive markets, and it will probably seek to increase pulp imports from Japan.

The Australian plantation hardwood industry continues to prosper in terms of new plantings and investment. As plantations mature and harvests increase, the importance of developing and retaining key Asian markets for woodchips will be of utmost importance. The profitability of the industry, particularly with respect to investors in MIS, will be dependent on improving production efficiencies as well as retaining and increasing their current market share in Asia-Pacific markets.

Hardwood Sawlogs and Veneer Logs
As supplies of Australian native hardwood become increasingly limited, the demand for hardwood sawlogs and veneer logs will turn to plantation-derived resources. However, to date few clear-wood hardwood plantation regimes (targeting clear grade or veneer quality logs) have been established in Australia. As such, it is expected that the domestic demand for clear-grade logs will remain strong, as will the demand for laminated veneer products. Historically, the overwhelming majority of the laminated veneer products manufactured in Australia have been consumed domestically. It is expected that the domestic market will remain the key target market for clear-wood products produced in Australia, although there is excellent potential for developing export markets due to the increase in affluence across many developing Asian countries.

Softwood Sawlogs and Pulpwood
Australian softwood sawn timber consumption is driven largely by housing construction rates, and is therefore related to population growth and prevailing economic activity. Given that moderate Australian economic growth is expected in the future, sawn timber consumption is expected to remain strong throughout the investment term. In addition, assuming that Gunns proceeds with the Bell Bay pulp mill, and given the expansion of pulp processing capacity in the Murray Valley of NSW, the domestic market for softwood pulpwood should also remain strong.

The domestic supply of softwood resources is forecast to plateau in the forthcoming decade, with an anticipated regional shortage in some areas. Given the static forecast supply of softwood timber, and a declining supply in structural timber sourced from native hardwood stands, there are excellent opportunities for growers of softwood plantations in the structural timber market.

New Zealand poses the biggest threat of competition, being the largest exporter of forest products (in terms of value and volume) into Australia. With an immense softwood supply set to come on-stream, New Zealand will be looking to expand its supply into Australia. However, New Zealand lacks the processing capacity to meet this increase in log supply volume, and it is anticipated that the majority of the resource will be exported as whole logs. It is therefore believed that Australian growers will still hold key transport advantages for supply volume into domestic mills.

Marketing Strategy

FEA Plantations has entered into a wood purchase agreement (WPA) to sell all of the wood produced from each woodlot option to the parent company FEA. The price offered for the resource is expected to be competitive, and no less than the Average Comparative Price or the relevant Floor Price. The Average Comparative Price is roughly defined as the average price paid over the past two years by FEA (or another major competitor) to other major suppliers, for wood of similar species, quality, quantity, and location. The Floor Price is defined in the Investment Parameters section of this report.

The RE may only set the sale price if it has been independently evaluated and verified by a qualified log marketing expert. This expert confirmation must be provided in writing. In the event that the RE does not agree with the price issued by FEA, or if another buyer offers a higher price, then the resources may be sold to an alternative buyer. In this scenario, FEA still has the right to match any alternative offer.

Adviser Edge views the marketing strategy employed by FEA as being sufficient considering the long-term nature of forestry. The WPA provides both downside price protection and the ability for the RE to leverage off upside on spot markets. Adviser Edge considers FEA to be continually developing market strengths, which should enable the company to pay competitive market prices for a portion of the investors' resources at harvest time.

Marketing Risk

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

The following provides a discussion of the key production and economic parameters that are expected to directly impact the Project's financial performance.

Project Yield and Quality

Performance Parameters	Project Estimates
Project Term	
– Option 1	13 years
– Option 2	16 years
– Option 3	25 years
Timber Yield (per hectare)	
– Woodlot Option 1	351m³
– Woodlot Option 2	432m³
– Woodlot Option 3	551m³

Source: FEA Plantations.

FEA expects that the clearfell harvests will commence in Project year 13 for Option 1, Project year 16 for Option 2, and Project year 25 for Option 3. The Project year in this example represents the number of years after planting. Investors should be aware that it is possible for FEA to commence planting over a year after the closing date of the Project.

FEA has estimated that the average Mean Annual Increment (MAI) for the hardwood plantations will be close to 27m³/ha/year, which corresponds to a total yield of 351m³/ha (including a thinning yield of 95m³/ha) for Option 1 and 432m³/ha (including a thinning yield of 95m³/ha) for Option 2. FEA has also estimated that the MAI for the softwood plantations will be close to 22m³/ha/year, which corresponds with a total yield of 551m³/ha over the life of the Project. Thinning operations for Woodlot Option 3 are expected to yield 98m³/ha in Project year 13, and 108m³/ha in Project year 18.

Yield Analysis

As the majority of the land for each option has not yet been selected, it is not possible to make accurate predictions about the potential yield performance for each option. As such, it is only possible to assess the various aspects of the FEA's site selection criteria in relation to each plantation region, and FEA's past performance in each of these regions.

The actual yield achieved for each site will be a function of site selection, climatic conditions, and species. In particular, rainfall characteristics and the soil type and depth have a major influence over the yield performance of plantations. Improper management techniques over the term can also have an impact on yield.

Weed control, particularly in the early years of the plantation, will have a significant influence on the initial plantation growth. Fertiliser treatments at establishment, with the provision for further applications, will also play a key part in plantation performance across a range of sites.

It is expected there will be some variation in site yield across the regions, particularly in the subtropics where different species are being used. Investors will be protected from this site-to-site yield variation as FEA will be pooling the Project proceeds; investors will receive the income from a weighted average yield per woodlot across all regions. Ultimately, the average yield will depend on FEA's site selection criteria and adherence to these criteria, and FEA's ability to adequately manage the plantations. It is important to note that FEA uses independent verification when selecting each plantation site. This verification should play an important role in ensuring investors' woodlots are being established on suitable land.

Adviser Edge considers the yield forecasts proposed by FEA to be achievable, but only if high quality sites are selected, quality management protocols are adhered to, and average rainfall is achieved. Given the drought conditions in 2006 and 2007 across many planting regions in Australia, Adviser Edge emphasises the need for conservatism, particularly if dry conditions persist.

Sawlog recovery

Sawlog recovery can be quantified as a performance parameter by forecasting the percentage mix of high and low value products that can be produced from each woodlot option during thinning and final harvest. The following tables show FEA's expectations of sawlog recovery for the Project.

Recovery of Sawlog (Hardwood)		
Operation	Woodlot Option 1	Woodlot Option 2
Thinning 1	6.3%	6.3%
Clearfell	45%	32.8% pruned 22.1% unpruned

Recovery of Sawlog (Softwood – Woodlot Option 3)				
Operation	Small sawlog	Medium sawlog	Large sawlog	Extra large sawlog
Thinning 1	33%	–	–	–
Thinning 2	20%	32%	11%	–
Clearfell	16%	29%	26%	19%

The grade of sawlog recovery has a significant influence on price and, consequently, the investment returns for each woodlot option. The straightness and size of the log, the presence and size of knots, and the presence of other log defects (such as machine damage) are the main factors that determine sawlog recovery. Sawn timber processors are able to mill more high grade timber from straight, defect-free logs and are therefore prepared to pay higher prices for these logs.

Sawlog recovery is a function of genetics, site characteristics, and stand management. Pruning operations for Option 2 woodlots are expected to improve sawlog recovery by producing knot-free pruned logs. Likewise, the thinning of all options should result in larger final-crop stems.

The sawlog recovery information provided by FEA is derived from the independent forester's report written for the Project. The figures seem consistent with industry expectations for similar forestry regimes, although information supporting the yield and sawlog recovery of the subtropical species is limited. If FEA continues with high quality site section and management of forestry plantations, Adviser Edge is confident that FEA can establish and manage hardwood and softwood plantations to achieve the sawlog recovery figures quoted by the independent forester.

Pulpwood and Sawlog Price

The following tables show the price forecasts provided by FEA. These prices are based on the information found in the independent market report and are given in present-day values.

Price Parameters ($/m³)		
Average Stumpage	Woodlot Option 1	Woodlot Option 2
Pulpwood ($/m³)		
– Thinning	$42.00	$42.00
– Clearfell	$45.00	$45.00
Sawlog ($/m³)		
– Thinning	$52.50	$52.50
– Clearfell	$56.25	$56.25 – (unpruned) $112.50 – (pruned)

Price Parameters ($/m³) – Woodlot Option 3			
Average Stumpage	Thinning 1	Thinning 2	Clearfell
Pulpwood	$11.00	$11.00	$11.00
Small sawlog	$30.00	$30.00	$30.00
Medium sawlog	–	$48.75	$48.75
Large sawlog	–	$69.30	$69.30
Extra large sawlog	–	–	$83.50

The stumpage price reflects the standing price of the timber before harvest, and can be multiplied by the green standing recoverable yield to determine harvest proceeds prior to deduction of deferred fees. However, to determine the stumpage, a number of factors need to be taken into consideration, particularly the conversion from weight to volume that will be used to determine investors' returns: harvested logs are weighed, yet growers are paid by volume. At harvest, the conversion figures are likely to be determined from sample measurement or from industry standard figures – taking into account the species, age, and region.

The stumpage price is determined from the free on board (FOB) or mill door prices, and converted back by subtracting all the costs of harvesting, chipping, transportation and marketing, and by incorporating any conversion factors (i.e. volume-to-weight, green-to-dry, etc). Many timber processors across Australia offer a direct stumpage price to forest growers, which in most instances reflects the market value of the wood less the costs required to harvest, transport, and process the wood. FEA proposes that investors will be offered a stumpage price for their woodlots.

Investors in Woodlot Options 1 and 2 have the benefit of a 'floor price' mechanism, which is outlined in detail in the *Wood Purchase Agreement*. The aim of the floor price mechanism is to provide investors with protection against future increases to the costs for harvesting, transporting, and processing the project timber. The floor price mechanism has been set so that the floor price is 7% to 10% below the pulpwood and sawlog stumpage prices forecast by the independent forester.

Pulpwood Prices (Hardwood and Softwood)

The hardwood pulpwood stumpage prices provided by FEA and the independent forester reflect the present-day prices being offered to forest growers in Tasmania, and are based on a lower average FOB price to what is being recovered in Western Australia. This lower FOB price reflects the lower-value native regrowth that is mixed in with the plantation material to meet quantity targets required for exporting out of Tasmania.

In time, it is expected that the development of the plantation estate, and the increase in harvest from plantation sites, will allow for higher FOB prices to be obtained for plantations woodchips exported from Tasmania.

The pricing of the subtropical eucalypt species is less certain, however Adviser Edge has no reason to believe that FOB pulpwood prices for the subtropical species will differ significantly from the shining gum FOB pulpwood price. The high density and lower shipping distances of the subtropical species should offset any potential reduction in stumpage price that is expected from the long average haul distances that characterise the subtropical sites.

The pulpwood prices provided by FEA and the independent forester are consistent with the stumpage prices being achieved for softwood pulpwood in other regions of Australia.

Adviser Edge is satisfied that FEA has provided a reasonable indication of the present-day pulpwood stumpage prices that can potentially be achieved for the timber harvested from Options 1 & 2. Adviser Edge has taken a conservative view of stumpage price inflation, targeting 0% in real terms. Pulpwood price trends are discussed in the following.

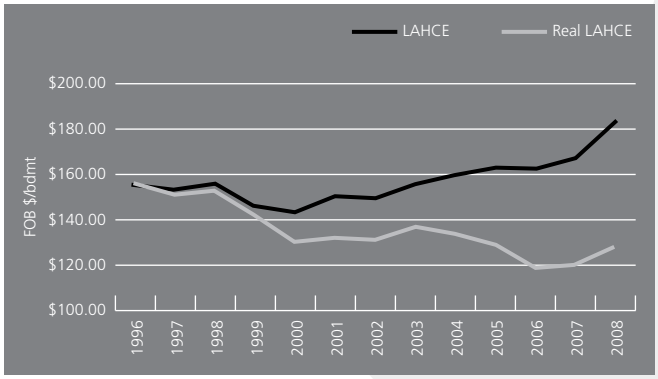
Woodchip Price Trends

The FOB and mill-door prices paid for Australian hardwood woodchips will be determined by a variety of industry and economic considerations, including prevailing market demand and supply conditions, exchange rates, production costs, transport costs and prices in competitor countries.

The hardwood plantation woodchip export industry is relatively young in Australia, and the export volume of this product has only recently begun to increase. Based on the development of short rotation hardwood plantations, the export volume for plantation woodchips is expected to climb significantly in the next decade. As such, a study of the industry trends for native hardwood woodchip exports is the best way to assess the long-term trends for woodchip export prices for plantation derived wood. The average FOB export price for native woodchips is based on the price paid by Japan for non-plantation woodchips shipped out of Tasmania by Australia's largest woodchip processor, Gunns. This price is referred to as the Leading Australian Hardwood Chip Export (LAHCE) price, and is used as a benchmark for the Australian hardwood woodchip industry exports.

It is important to note that the LAHCE price is only representative of the price being received by exporters of non-plantation woodchips. Many forestry industry practitioners believe the pricing mechanisms for plantation-grown woodchips are beginning to operate independently. This change may develop further as more plantation resources enter the woodchip export market. The following chart shows the LAHCE price trend over the past 12 years.

LAHCE Woodchip Export Prices



Since 2001, the LAHCE price has increased by approximately 22% in nominal terms, from $150/BDMT in 2001 to $183/BDMT in 2008, although there has been virtually no increase in real terms. Many industry experts believe the real price trend for woodchip exports is likely to continue as it has done in the past. However, some of the more optimistic industry participants believe the supply / demand imbalance between pulp production and paper demand, should lead to the Australian export woodchip prices increasing at a rate which is higher than inflation. It is important to note that the average Australian CPI figure used to calculate the Real LAHCE price trend between 2004 and 2007, was almost 5% per annum; this is almost twice the long term forecasts provided by many leading Australia economists.

Early in 2008, the Australian woodchip industry was able to negotiate an approximate 10% increase in woodchip prices, for plantations and mixed native. This large increase is thought to be the beginning of a resurgence in woodchip export price, reflecting the supply / demand imbalance which has come about from China's insatiable appetite for affluence.

Sawlog Prices (Hardwood and Softwood)
FEA has provided estimates for sawlog stumpage prices that are based on the current market prices for similar grade softwood and hardwood structural logs. These values have been provided in the independent forester's report.

The price estimates for hardwood sawlogs have been determined by applying a price premium to the pulpwood stumpage value, with an expectation that the pruned sawlog will generate a much higher premium than the unpruned sawlog.

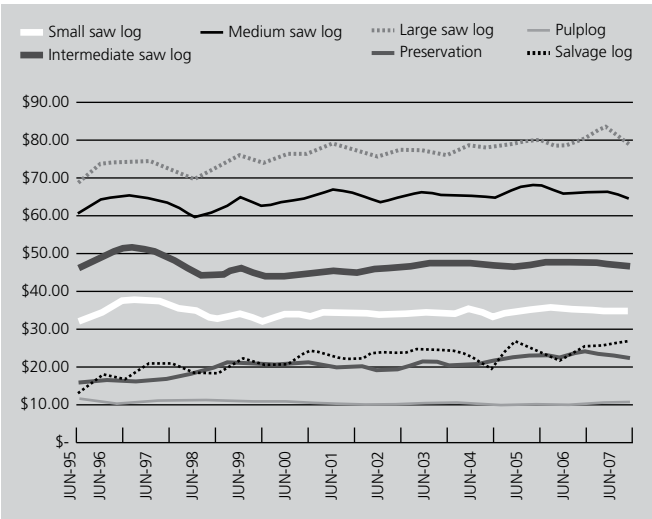
The estimated premium for unpruned sawlog (20%-30%) is similar to the premium being achieved in the present domestic market. FEA believes that the EcoAsh® hardwood products are likely to retain superior performance characteristics relative to conventional timber products, and will therefore receive an even higher premium compared to structural grade timber.

The softwood sawlog prices proposed by FEA and the independent forester are consistent with stumpage prices being received by softwood forest growers in southern parts of Australia.

As with pulpwood stumpage prices, Adviser Edge believes the sawlog stumpage price figures provided by FEA and the independent forester are achievable in the present-day markets. Adviser Edge believes that these prices will rise in line with prevailing inflation.

Softwood Price Trends
Domestic softwood log prices are monitored by the Australian Pine Log Price Index (APLPI), compiled by KPMG, using data provided by the largest softwood growers in the eastern states of Australia. The APLPI is updated every six months. The index does not necessarily reflect regional prices obtained, as domestic prices can vary significantly both between and within geographical regions. The following graph illustrates price trends for the sale of common grade softwood logs to domestic producers since 1995.

Australian Pine Log Price Index



Even though prices for housing materials have generally accelerated, the real price for the four most expensive grades of softwood logs (small, intermediate, medium and large sawlog grades) has fallen over the last decade. The weighted average price received for large sawlogs has only increased by 1.4% per annum since 1995, which is significantly less than the rate of inflation over this period. The price received for softwood woodchips has also fallen in real terms over this period. There is some industry pressure on the State governments, the largest growers of softwood plantation resources, to review the administrative pricing mechanisms used, as they are believed to distort and undervalue the real market price of radiata logs (IndustryEdge 2007).

It has been forecast that the domestic supply of softwood resources will stabilise in coming years, which may lead to regional shortages in some areas. Given the potentially static supply of softwood timber, and a declining supply in structural timber sourced from native hardwood stands, it is anticipated that processors may be prepared to pay a premium to guarantee supply.

Key Risks – Performance Parameters

Yield and Quality
Plantation forestry is exposed to risks that are similar to those inherent in other agricultural production systems. Risks relevant to the plantation hardwood industry include impacts from climatic events such as low rainfall, excessive heat and wind, and seasonal aspects such as fire, pests and diseases. Investors should also be aware that even conservative yield estimates may fail due to adverse growing conditions.

Price and Costs
Investor returns will be directly affected by the price of the sawlog and pulpwood produced and the costs associated with harvest and processing. While prices and costs are generally dictated by the dynamics of supply and demand, changes in certain macro-economic factors can also have an impact. Such factors include exchange rates, interest rates and inflation. Investors need to be aware that these factors can negatively impact on investor returns.

Diversification and Risk

Benefits of Holding a Diversified Portfolio
The benefits of portfolio diversification are widely recognised in modern portfolio theory. Portfolio managers are able to reduce the overall portfolio risk while maintaining average target returns by selecting a combination of poorly correlated or negatively correlated investments.

Risk diversification recognises that holding a diversified portfolio may lessen the impact of poor investment return from one asset, where the poor returns are offset by positive returns from other investments. This situation occurs when the factors that influence the poor performance (in one asset) are not prevalent in other assets.

Diversification of general portfolio instruments (e.g. stock market equities and bonds) is often achieved by combining assets with poor or negatively correlated historical returns. Unfortunately, agribusiness MIS investments do not have a history of returns and thus cannot be combined in a portfolio using typical theories for portfolio development.

Recognising this, Adviser Edge has taken a qualitative approach to identifying the benefits of mixing agribusiness investments. It is believed that many agribusiness investments have similar underlying characteristics that can determine performance over the long term. More specifically, these characteristics relate to any such factor that influences the yield or product price achieved, or input cost incurred over the life of a project.

Risk
As with most investments, there is a chance that the actual return will be different than expected. The magnitude of this chance is often referred to as an investment's risk. The risks associated with MIS projects are unique in that they cannot be easily quantified. Nonetheless, agribusiness MIS risks are very significant and can severely affect the returns for a project.

Risks in agribusiness investment are often linked to influences such as climate, markets, or management; prudent diversification of an agribusiness portfolio would seek to allocate investments to reduce any over-exposure to these risks. While some agribusiness risks are difficult to diversify against (e.g. risk of policy change in an industry), Adviser Edge recognises that it is possible to combine different agribusiness or forestry MIS investments to achieve diversification benefits.

Adviser Edge Approach

Key Considerations
The Adviser Edge blend rating system identifies the quality of each underlying investment within the Project, and analyses the key risks that may influence returns for each investment to determine a diversification benefit for the entire portfolio. The key characteristics that are focused on are:
– Product markets (e.g. domestic structural solidwood, global sawnwood markets, Asia pacific hardwood pulpwood)
– Management (e.g. regulatory, operational)
– Environment (e.g. rainfall, soils, wind)
– Cost inputs (e.g. maintenance inputs, transport requirements, harvesting and marketing requirements)
– Macro economic factors (e.g. inflation, exchange rates, interest rates)
– Cash flow (e.g. timing of returns)

Adviser Edge Rating
An investment in a Unit of the FEA Plantations Project 2008 Option 4 offers investors with a forestry portfolio that combines underlying forestry investments that focus on different geographical regions and different target product markets. Adviser Edge takes the view that the portfolio will provide diversification benefits if the combined project exposure is spread across a number of these key project characteristics.

The blend star rating represents a weighted average star rating for the mix of underlying investments in a blend portfolio, plus a blend benefit rating. The weighted average star rating is determined from Adviser Edge's standardised agribusiness MIS assessment model, while the diversified blend benefit addition is based on a qualitative analysis of the diversification benefits for the blend portfolio. To provide a more useful comparative analysis for the blend ratings, Adviser Edge has issued the star ratings for the blend portfolios in 0.05 intervals, instead of the 0.25 intervals issued for standalone agribusiness products.

As well as deriving an underlying star rating, the model develops a cash flow profile for each of the blends and generates an adjusted internal rate of return. The adjusted internal rate of return incorporates Adviser Edge's adjustment of key variables for modelling purposes, ensuring a more conservative approach to measuring potential outcomes for individual projects.

Modelling Limitations
The forecast cash flow and IRR range provided by Adviser Edge is indicative and will depend on a number of key investment variables that may influence the actual financial outcomes of the Project. As such, this information is provided as a guide only and investors should seek additional professional advice regarding the impact of changes in key variables on project returns given their individual circumstances. Investors should also note that risk factors may influence project returns and cash flow profiles relied upon for this report.

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

Investment Analysis – Options 1, 2, and 3

Adviser Edge Estimated IRR Range*	
FEA Plantations Project 2008	Pre and Post Tax
Woodlot Option 1	5.85% – 11.40%
Woodlot Option 2	6.86% – 11.92%
Woodlot Option 3	6.51% – 10.42%

*Please Note: The IRR range is provided as a guide only, and investors are encouraged to seek additional professional advice regarding the impact of changes to key project variables. Investors are assumed to be GST registered. All other tax-related liabilities and insurance costs have been ignored to calculate the pre-tax IRR range. The post tax IRR range assumes a final marginal tax rate of 46.5%.

Investment Analysis Performance Assumptions

The estimated project returns provided by Adviser Edge have been calculated using various performance assumptions. The key assumptions are presented in the following table. These assumptions have been determined from information provided in the PDS, directly by FEA, from the independent forester report and market report, and from independent studies undertaken by Adviser Edge.

Performance Assumptions	Option 1	Option 2	Option 3
Age of trees at clear fell harvest*	13 years	16 years	25 Years
Total yield	355m³/ha	430m³/ha	551m³/ha
Total sawlog recovery – Thinning 1 – Thinning 2 – Clear fell	 6% N/A 40%	 6% N/A 60%	 33% 63% 90%
Pulpwood stumpage price – Thinning 1 – Clear fell	 $42.00/m³ $45.00/m³	 $42.00/m³ $45.00/m³	 $11.00/m³ $11.00/m³
Unpruned sawlog price premium	25%	25%	Various**
Pruned sawlog price premium	N/A	150%	Various**
Stumpage price indexation	2.80%	2.80%	2.80%

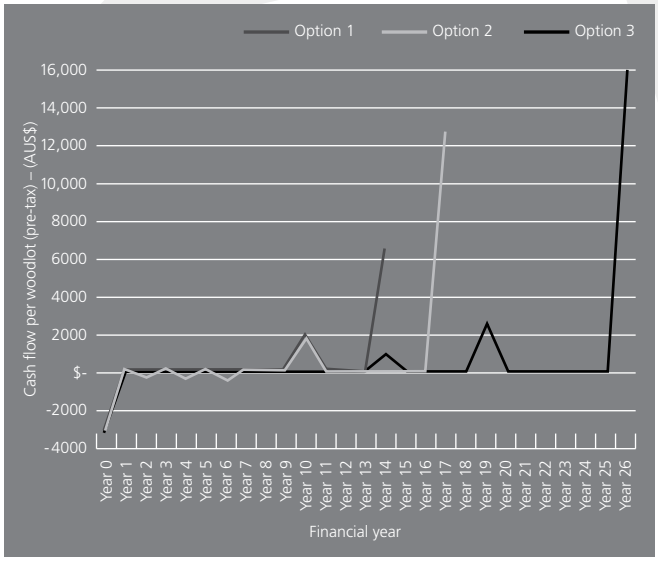
*This analysis assumes planting occurs within 12 months of capital being received by the RE.

**Please see the performance parameters section.

Pre-tax Cash Flow per Unit

The FEA Plantations Project 2008 aims to generate investor returns through the establishment, growth and sale of hardwood pulpwood and sawlogs (Options 1 & 2), and softwood pulpwood and sawlogs (Option 3). The investment term and cash flow for each woodlot option is different. The following chart shows an indicative cash flow for the purchase of one woodlot for each option. These cash flows have been modelled using the performance assumptions given in the previous table.

Pre-Tax Cash Flow per Unit



Sensitivity Analysis
The table below illustrates the sensitivity of investment returns (IRR) given an isolated change in each modelling assumption for each Woodlot Option.

IRR Sensitivity (Based on pre-tax returns)		
Yield +/- 10% of MAI	-ve	+ve
Option 1	-0.87%	0.80%
Option 2	-0.75%	0.72%
Option 3	-0.51%	0.46%
Sawlog Recovery +/- 10% of assumed values	-ve	+ve
Option 1	-0.07%	0.06%
Option 2	-0.19%	0.23%
Stumpage Price Inflation +/- 1% in indexing rate	-ve	+ve
Option 1	-1.05%	1.05%
Option 2	-1.10%	1.14%
Option 3	-1.05%	1.05%

This analysis demonstrates how a change in each modelling factor may affect returns. It is recognised that the variables explored in this analysis are the key determinants of investment returns for each woodlot option.

Based on a comparative analysis of other projects researched by Adviser Edge, the sensitivity of each woodlot option is relatively low. This is due to the high proportion of deferred (percentage-linked) fees which 'absorb' some IRR sensitivity.

Stumpage Price
All stumpage prices used in the investment analysis are based on the performance parameters provided by FEA. These prices were stated in the independent forester's report, and supported with the opinion of a qualified industry expert.

The hardwood pulpwood stumpage prices used in this analysis have changed significantly from 2007, reflecting a 10% increase in FOB prices for woodchips exported from Australia to Japan. These prices are based on actual figures being received in Tasmania.

The hardwood unpruned sawlog prices provided reflect a 25% premium over the hardwood pulpwood stumpage prices. The hardwood pruned sawlog prices have increased significantly from 2007 but are still considered by Adviser Edge to be achievable – a view backed by the independent forester.

The softwood stumpage prices used in this analysis are consistent with softwood prices endorsed by the independent foresters for two other softwood MIS forestry projects offered in FY2008.

It is also recognised that FEA are in an excellent position as a company regarding milling and wood chipping infrastructure for both hardwood and softwood, to quote prices for pulpwood and sawlog stumpage.

Adviser Edge is confident that the stumpage prices used in this analysis reflect the present-day stumpages that could be achieved if the Project plantations were harvested today. To allow for future uncertainty, Adviser Edge has incorporated variation into the rate of inflation indexing in the calculation of the IRR ranges for each woodlot option. Adviser Edge has used a higher level of inflation variation for Option 1, as the majority of the project is being established with unproven species in an area where processing infrastructure is yet to be developed.

Harvesting Costs
The stumpage prices used in the investment analysis are based on the value of project trees while standing and just prior to harvest. The removal of the trees from the forest, the conversion to woodchips, transportation, and loading for export all involve costs which must be factored into the calculation when determining the returns for a project of this nature, as these factors all directly affect the stumpage prices that will be paid to investors. Adviser Edge has assumed a combined processing cost of between $50/m³ and $55/m³ based on an average haulage distance of 150km in Tasmania. As suggested earlier, the higher density and reduced shipping costs for the subtropical areas should offset the large haulage distances from forest to port.

Adviser Edge acknowledges that harvesting costs could rise more than CPI due to reliance on oil price. Since 2003, oil prices have risen sharply, well in excess of Australian CPI. It is widely accepted that world oil demand could exceed supply capacity in the future, and could potentially result in another oil price spike. This will impact on the stumpage price of woodchips received by investors. The IRR range calculation takes into consideration the potential for high variation in harvesting costs.

Project Yield
Adviser Edges believes that FEA has employed a highly competent forestry team, whose members are more than capable of selecting and managing sites that will perform to expectation.

FEA's most significant forestry operations are based in Tasmania working with shining gum. The development of shining gum as a plantation species is extensive and well researched. FEA has the experience and the capabilities to manage shining gum to its fullest potential, giving confidence that FEA can grow shining gum plantations that should meet project objectives.

In contrast, information relating to the performance of the northern New South Wales and south-east Queensland eucalypt species is somewhat limited. Inventory data on one to four year old plantations has demonstrated encouraging growth rates when the plantations have been established on high quality sites. For this reason, it is expected that there is reasonable potential for these species to generate yields that should meet project objectives.

While FEA only has limited experience in developing softwood plantations, it is recognised that the softwood plantation industry in Tasmania is strong, and is supported by a wide range of softwood industry professionals. It is believed that FEA should be able to tap into these resources and develop high quality stands of radiata pine that are likely to deliver the yield expectation for Option 3.

Based on the confidence in FEA's site selection and management capabilities, Adviser Edge has used only slight variations in project yield when determining the IRR range for each woodlot option.

Project Sawlog Recovery
Sawlog recovery is determined from a wide range of factors that affect plantation performance. Consequently, it is very difficult to accurately forecast this performance parameter when calculating the estimated investment returns. For this investment analysis, Adviser Edge has adopted the sawlog recovery figures provided by the independent forester, which are consistent when compared to industry expectations for both hardwood and softwood sawlog plantations.

To reflect the uncertainty in forecasting sawlog recovery, Adviser Edge has incorporated a high variation for this parameter in the calculation of the IRR range.

Investment Analysis – Option 4

Adviser Edge Potential IRR Range*	
	Pre and Post-Tax**
FEA Plantations Project 2008 Option 4	6.62% – 11.35%

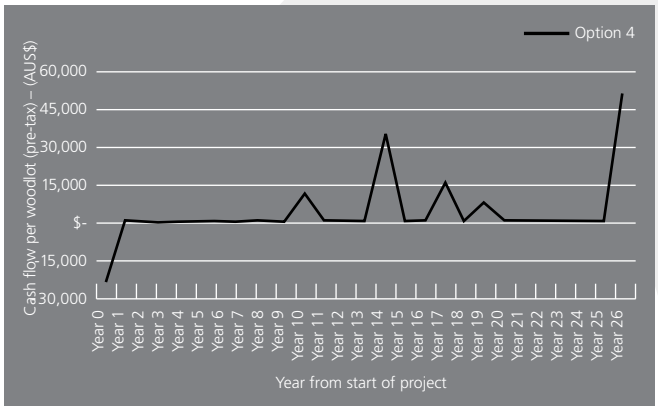
*The range is provided as a guide only and investors should seek additional professional advice regarding the impact of changes in key variables on project returns given their individual financial circumstances. The analysis does not consider investor finance arrangements or insurance.

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

Investment Analysis Performance Assumptions
The estimated project returns provided by Adviser Edge have been calculated using various performance assumptions. These assumptions are the same as the assumptions used for the investment analysis of Options 1, 2, and 3.

Pre-tax Cash Flow per Unit
The FEA Plantations Project 2008, Option 4 aims to generate investor returns through the establishment, growth and sale of timber under three different forestry regimes. The investment term and cash flow for each regime is different, providing the investor with a series of revenue streams over the life of the Project. The following chart shows an indicative cash flow for the purchase of one DFO unit, which is the minimum investment for the Project.

Pre-tax Cash Flow per Unit



Sensitivity Analysis

The table below illustrates the sensitivity of investment returns (IRR) for Option 4, given an isolated change in key modelling assumptions used to determine the investment returns of the underlying Woodlot Options.

IRR Sensitivity (based on pre-tax returns)		
Total Yield for Option 4 +/- 10% of MAI	-ve	+ve
Option 1	-0.35%	0.35%
Option 2	-0.11%	0.12%
Option 3	-0.22%	0.21%
Stumpage Price Inflation +/- 1% in indexing rate	-ve	+ve
Option 1	-0.42%	0.46%
Option 2	-0.16%	0.19%
Option 3	-0.45%	0.51%

This analysis demonstrates how a change in each modelling factor may affect returns. It is recognised that the variables explored in this analysis are the key determinants of investment returns for each underlying investment.

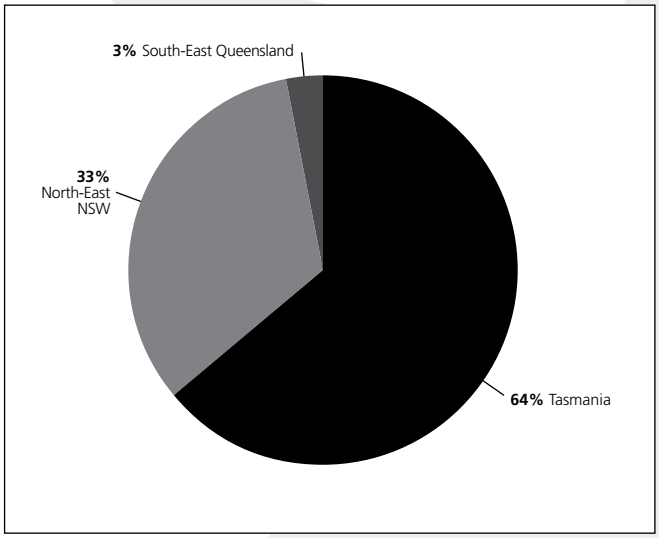
It is clear from this analysis that the Project returns are most sensitive to variation in yield for Option 1 and price indexation for Option 3. The Project returns are least sensitive to variation in yield and price indexation of Option 2. These results are expected given Option 1 represents the highest number of woodlots in the Project (four), and therefore has the highest contribution to portfolio sensitivity due to a change in yield. Option 3 has the second highest representation (two) but the longest term, and therefore has the greatest impact on total project sensitivity due to a change in price indexation.

Based on a comparative analysis of other projects researched by Adviser Edge, the sensitivity of the Project is low. This is due to two key features: Firstly, the Project receives returns from a diversified portfolio of underlying investments, meaning that the impact from an under performing asset is not as significant, assuming the performance of asset remains on target. Secondly the high proportion of deferred (percentage-linked) fees 'absorb' a significant level of IRR sensitivity.

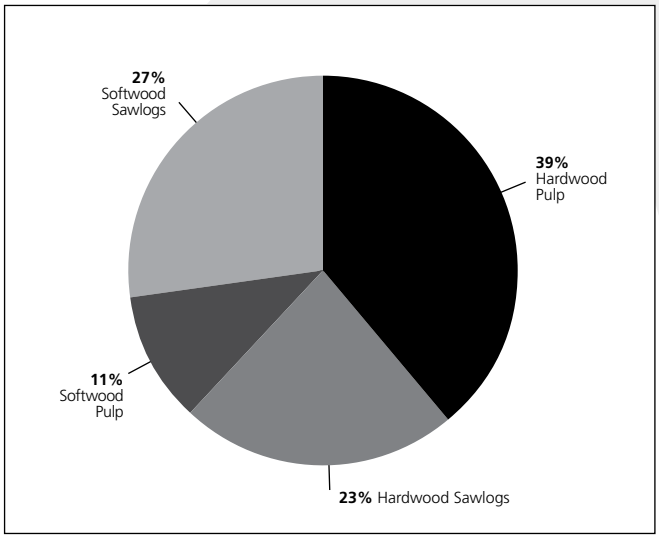
Blend Analysis

The FEA Plantations Project 2008 Option 4 offers investors diversification benefits by providing an investment into three different forestry regimes. The two key characteristics of the Project that offer significant diversification benefits are geographic location and product markets. For the purposes of assessing the diversification benefit, Adviser Edge has identified the exposure to each regime as the net present value (NPV) of cash flows for each underlying investment. The following pie charts illustrate the Project's exposure:

Geographic Exposure



Product Market Exposure



Geographic Diversification

The Project will develop plantations in three key forestry regions across Australia. Diversification across regions offers many benefits, including risk mitigation associated with environmental and market factors. In the blend analysis, Adviser Edge has identified a high exposure to Tasmania. This is because all three underlying woodlot options have at least some proportion allocated to this region.

Despite a high exposure to Tasmania, Adviser Edge believes the Project offers a reasonable geographical spread that should help mitigate the financial impact of any influence that may be specific to a project site.

Product Diversification

Diversification across products offers numerous benefits for investors by reducing exposure to the negative impacts associated with market downturn, cash flow cycles, and macro economic factors (e.g. exchange rates). The product exposure shows a high level of returns being generated from hardwood pulp (39%), and to a lessor extent softwood sawlogs (27%) and hardwood sawlogs (23%).

Adviser Edge believes the product diversification provides the investors with moderate level of diversification. The Project offers a good balance between investments seeking to generate investment returns from export markets and domestic markets. In the short term, this should help mitigate total project exposure to exchange rates.

Other Considerations

Post-Tax Potential

The post-tax returns earned by an investor will depend on the investor's marginal tax rate when harvest returns are received. The post-tax IRR range provided by Adviser Edge assumes that the investor maintains the same marginal tax rate of 46.5% throughout the investment term. It is likely however, that an investor's tax status will change over the life of the project – especially Option 3, which has a targeted term in excess of 25 years. A change in tax status may result from a change in circumstance for the investors, or a change in tax policy administered by the Australian government. It is important that investors are aware of how these changes may affect the post-tax performance of the project.

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

Inflation

The long-term Consumer Price Index (CPI) estimate used in the investment analysis is 2.8%. This widely accepted figure was reported by BIS Shrapnel (2007) as the medium to long-term CPI forecast for Australia. All prices and costs have been indexed to this CPI figure.

Risk Apportionment

Risk apportionment refers to the level of risk the Project Manager/RE shares as a consequence of the project fee structure. It is considered that project fees which are linked to harvest proceeds, and therefore project performance, promote a level of risk-sharing that aligns the manager's interests with that of investors.

It is believed that FEA will only receive a modest profit from the application fees, and will need to ensure project outcomes are achieved to guarantee an acceptable level of return as a company. The 15% deferred fee for Options 1 & 2, and the 10% fee for Option 3 ensures that FEA has an incentive to seek positive outcomes for the project, and to avoid any failures. It is Adviser Edge's opinion that the fee structure for the Project has an acceptable level of risk apportionment.

Summary

The FEA Plantations Project 2008 offers four options to invest in the Australian plantation forestry. Option 1 & 2 are short to medium term investments into hardwood solidwood and pulpwood. Option 2 will target higher value pruned logs over a slightly longer term. Option 3 is a long term investment in softwood forestry. Option 4 is a diversified investment offer in a fixed ratio of four Option 1 woodlots, one Option 2 woodlot, and two option 3 woodlots. The strengths of the projects are summarised in the following:

– The Projects are backed by one of Australia's leading forestry managers, with a proven track record for the successful establishment, growth, and harvest of plantation forestry. The manager is also characterised by strong corporate governance and a strategic focus to develop forestry infrastructure; this is generally in support of the MIS projects under management by the company.
– There is an optimistic market outlook for both hardwood and softwood forestry – this is true for both the domestic and export markets. The infrastructure focus by FEA should lead to broader market opportunities with limited barriers to entry.
– Most of the sites being planted in Tasmania are supported by strong empirical evidence on the growth of both hardwood and softwood.
– The midpoint IRRs calculated by Adviser Edge are commercially competitive, while the IRR ranges are moderately narrow. This is due to the relatively low IRR sensitivities for each option, which is a consequence of a reasonably well balanced investment fee structure.

The main weaknesses of the projects are summarised in the following:

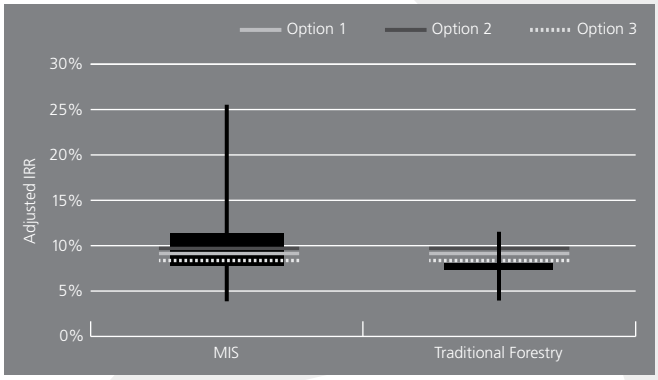
– While there is now an opportunity for forestry MIS investments to be traded on secondary markets, there is little evidence to suggest a market has developed and is functioning efficiently. As such, these investments remain illiquid.
– Some of the subtropical regions (Options 1 & 2) present some challenges to FEA. The sites and species being developed in these regions are not as well proven as the sites and species being developed in Tasmania. Furthermore, the market opportunities for the subtropical species will require an ongoing development commitment from FEA. Despite this, FEA will endeavour to limit the exposure of Option 2 to the subtropics.

Adviser Edge has estimated the pre-tax returns range to be between 5.85% and 11.40% for Option 1, 6.86% and 11.92% for Option 2, and 6.51% and 10.42% for Option3. Using a standardised risk adjustment model, Adviser Edge has calculated an indicative pre-tax risk adjusted IRR of 9.23% for Option 1, 9.85% for Option 2, and 8.42% for Option 3. If an investor maintains the same tax rate throughout the investment term, the post tax returns are calculated to be the same as the pre tax returns.

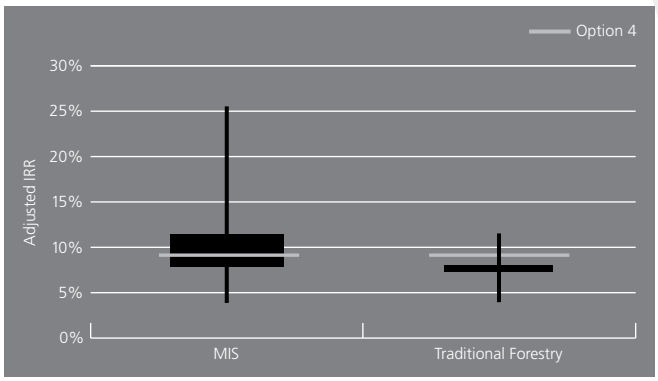
For Option 4, Adviser Edge has estimated a pre-tax returns range of between 6.62% to 11.35%. Using a standardised risk adjustment model, Adviser Edge has calculated an indicative pre-tax risk adjusted IRR of 9.55%. If an investor maintains the same tax rate throughout the investment term, the post tax returns are calculated to be the same as the pre-tax returns.

The following charts benchmark these risk adjusted return estimates against other non-traditional forestry projects researched by Adviser Edge in FY2007.

FEA Plantations Project 2008 Options 1, 2, & 3 vs. MIS and Traditional Forestry



FEA Plantations Project 2008 Option 4 vs. MIS and Traditional Forestry



When compared to all MIS projects researched by Adviser Edge in 2006-07, the risk adjusted IRR estimates for all options are situated between the first and third quartile. When compared to the traditional forestry projects researched over the same period, the returns for all options lie above the third quartile.

It is important to note that the forecast returns for Options 1 & 2 are higher than previous years because of the large increase in woodchip price that was achieved in 2008. The Adviser Edge IRR calculation uses current woodchip prices and forecasts project performance using an estimate for price inflation. As such, the returns for forestry projects (e.g. those projects that are exposed to woodchip prices) analysed by Adviser Edge in previous years were calculated using lower woodchip prices. These projects will benefit from the recent woodchip price increases, and if the performance of these projects were calculated using present-day values, it is likely that the forecast returns would be on par with the IRR estimates for the FEA Plantations Project 2008.

As a general note, investments in agribusiness and forestry should represent a balance between the various potential risks and the forecast returns. All woodlot options discussed in this report offer a low to moderate risk profile over the medium to long term, with moderate pre-tax returns across the estimated range. This project should be considered as part of a well-diversified agribusiness portfolio.

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