AUSTRALIAN AGRIBUSINESS GROUP

FEA PLANTATIONS PROJECT 2009

Retail Investment Research – May 2009 (August Update)

Option 1	Option 2	Option 3	Option 4	Option 5
★★★★	★★★★	★★★★	★★★¾	★★★★

The overall rating given to Forest Enterprises Australia Ltd (FEA) and the FEA Plantations Project 2009, which is outlined above, is based upon the ratings given for each of the individual parts (Part A, B & C) as outlined below. Investors should seek their own advice and read the project PDS, Part A Corporate Governance Review, Part B Track Record Review and Part C Project Review including the disclaimers therein before making an investment decision. If a supplementary is issued or a material change impacts on the Project, AAG reserve the right to withdraw or alter this report and/or ratings.

AAG and Grant Thornton Ratings

	Option 1	Option 2	Option 3	Option 4	Option 5
Overall	★★★★	★★★★	★★★★	★★★¾	★★★★
Part A			★★★★½		
Part B			★★★★		
Part C	★★★★	★★★★	★★★¾	★★★¾	★★★★

This report is valid to October 2009

Project Summary

Investors become growers of timber and are exposed to agricultural risks. There are five investment options including (1) growing eucalyptus timber for the production of unpruned sawlogs and pulp logs, (2) growing eucalyptus timber for the production of pruned sawlog, veneer and pulp logs, (3) growing radiata pine for the production of sawlog, veneer and pulp logs, (4) growing African mahogany for high value sawlogs and (5) a combination of Options 1, 2, 3 and 4.

Project Details

Application Cost per Unit (ex GST) • Option 1, 2, 3 and 4 • Option 5	 $3,450 $23,000 (comprising 7 Woodlots)
Min Number of Interests per Investor • Option 1, 2, 3 and 4 • Option 5	 1 Woodlot 7 Woodlots
Asset Ownership	Nil
Size of Woodlot	0.5 ha (0.2 ha for Option 4)
Management & Lease Fees (ex GST)	15% - 20% of Harvest Proceeds
AAG Est. Returns (IRR after tax) • Option 1 • Option 2 • Option 3 • Option 4 • Option 5	 7.0% (3.1% – 9.9%) 7.8% (3.6% – 11.2%) 6.5% (5.3% – 7.6%) 8.2% (5.4% – 10.5%) 7.5% (4.2% – 10.1%)
Project duration	Option 1 - 14 years; Option 2 – 17 years; Option 3 and Option 5 – 26 years; Option 4 – 19 years
Commissions	Up to 8% of Application monies
Project Size and Raising	16,250 hectares, $112 million
Close Date for Investment in FY2009	30 June 2009
Product Ruling	PR 2009/23, PR 2009/24, PR 2009/25, PR 2009/26 and PR 2009/27

Underlying Comments

Ratings are awarded out of a maximum of five stars. A rating may include quarter stars. AAG and Grant Thornton have reviewed the answers to the self-assessment completed by the Directors and management of FEA in November 2008. AAG and Grant Thornton have also assessed the reasonableness of the responses made by the Directors and management in awarding them the underlying ratings. The ratings should not be taken in isolation and readers must refer to the separate reports and the terms, conditions and disclaimer contained therein.

PART A Grant Thornton Corporate Governance Review –

+ The Board and Responsible Entity have strong representation by independent directors, and a blend of skills relevant to the business.
+ The strategy setting process is well structured and involves the development of clear action plans.
+ The company is continuing to invest in good process including management reporting, risk management and compliance.
- FEA will not be using an external Custodian to manage Funds for future projects.
- We would like to see internal audit established given the business is a public company.

PART B AAG Track Record Review –

+ FEA is an integrated forestry and forest products businesses with a long history in the industry.
+ The performance of plantations included in FEA's 1993-1998 projects, all of which are located in Tasmania, have been very promising to date.
□ Although in a relatively strong financial position, investor loan default, much of which were funded on the balance sheet for the 2008 Project, provides risk to the company finances.
– FEA's debt monitoring is crucial. A likely net loss of $6-8m after tax for FY2009, compared to a profit of $48m after tax for the prior year is indicative of a growing debt position. Interest coverage will have significantly reduced to very low levels.
– A large proportion of plantations (particularly in later projects) are located in northern NSW and southeast Queensland where there remains unknowns as to achievable yields.

PART C AAG Project Review –

+ Returns for each investment Option are very robust to changes to the major variables. This is primarily a function of the back end fee structure in place.
+ AAG is confident in the company's ability to market the resource harvested from the Project Options.
□ The estimated returns for the Options 1, 2, 3 and 5 investment offerings are acceptable.
– The estimated returns for the Option 4 investment offering are low for a high value timber project of its type.
– Climatic variability has the potential to impact growth rates in all regions. Any extended period of low rainfall, especially in the establishment phase of the plantations, is a major risk to investors.

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Table of Contents

Forest Enterprises Australia Limited

Part A - Corporate Governance Review

January 2009

Corporate Governance Rating

★★★★½

Introduction

Businesses seeking external investment face greater scrutiny from stakeholders to ensure they are fulfilling their obligations. Heavy regulatory pressure has resulted in additional requirements on both large and small business in the way they conduct their business. Managed investment schemes are no different. Corporate Governance has been defined in many ways but in essence is the approach to overseeing the effective execution of a business. In this challenging investment environment, good corporate governance is all the more important.

This report reviews the Corporate Governance of Forest Enterprises Australia Limited ("FEA") and FEA Plantations Limited ("FEA Plantations") the Responsible Entity. It follows a prior report in January 2008. The report should be read together with Australian Agribusiness Group Track Record Review (Part B) and Project Report (Part C). The rating awarded is between one and five stars.

The report is based on a self assessment by directors and management of FEA and other information provided by them. The self assessment is enabled by a questionnaire provided by us which is completed and returned together with evidence supporting a number of the questions asked. The questionnaire includes examples of better corporate governance practice so that the directors can provide informed answers and can benchmark and improve the quality of their practices. We then review the answers and evidence provided and, based on this information, produce this report and award a rating. The ratings are not absolutely related to the questions because the nature of corporate governance practices will vary according to the size of the organisation and this is taken into account in awarding the rating. The assessment is based on three key areas of Governance for managed investment schemes, being:

- Board Oversight;
- Compliance Committee Activities; and
- Management Control.

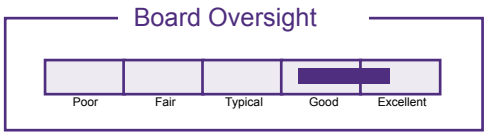
The report is based on answers provided in a questionnaire dated November 2008.

Background

FEA is an ASX listed forestry company, headquartered in Tasmania. As well as providing MIS investments to the public, the group also operates sawmilling facilities, which have recently undergone significant additional capital investment with a new mill at Bell Bay. In addition, the group exports woodchips to Asia. The company has forests under management in Tasmania, New South Wales and Queensland.

Board Oversight

Board oversight encompasses matters including the qualifications, experience and independence of the Board, the effectiveness with which it operates, the information it receives and relies on in the conduct of its activities and the extent to which it has defined its role and that of management. On the basis of the answers provided by FEA and the additional information provided to us, we have rated Board oversight as follows:



FEA Board members and their experience:

Director	Comments
William Edwards Chairman Non-Executive Independent	Will holds Bachelors of Laws and Arts and is a legal practitioner, currently in his own firm. He has been an FEA director since 2002 and Chairman since 2004. He holds 12,276 shares. His father-in-law is a material shareholder.
Anthony Cannon Executive Not independent	Tony holds a Bachelor of Science (Forestry) and a Diploma of Financial Planning. He has been a member of the FEA Board since 1985 and is the Director of Forestry Services. Prior to joining FEA, Tony was Chief Forester for Forestry Resources. He is a member of a number of relevant industry associations and groups. He holds 7,206,861 shares.
Vincent Erasmus Non-Executive Not independent	Vince holds a National Diploma of Forestry and has over 20 years experience in senior management including logging, sawmilling, wholesale and industry development. He is the CEO of ITC Limited which is owned by Futuris Limited and was appointed as a director of FEA in 2007.
Desmond King Non-Executive Independent	Des has over 50 years experience in the forestry industry. He has owned and operated a forestry contracting business and is a former CEO of Private Forests Tasmania, a government statutory body. He has been a director since 2002.
Michael Williams Non-Executive Independent	Michael holds a Bachelor of Business and is a Chartered Accountant, a Certified Financial Planner, a Registered Company Auditor and Registered Company Liquidator. He has been a director of FEA since 2002. Michael is a principal in an accounting and advisory firm and has been practicing since 1982. He holds 6,098,896 shares (1.5%).

Since our last review, the Board is down from seven to five directors with the departure of Les Wozniczka and Donald Taylor. The Board comprises three non-executive independents, one non-executive (not independent) and one executive, providing a good level of objective oversight to management. These directors have a good mix of relevant experience. The Remuneration and Nomination Committee has commenced a process to identify and appoint two new suitably qualified directors.

Other strengths in Board governance are:

- Delegations have been clearly documented
- Investor Communication is effective
- A clear Corporate Governance Code has been developed including Charters for the Board and it's sub committees
- Related party transactions are managed in a structured and transparent manner
- The roll out of the risk management program has progressed well but more work is required on how some of the key risks are controlled. FEA also now needs to ensure that the process is maintained through regular and critical review
- The strategy setting process was structured and involved input from the executive and Board – a clear action plan was developed

Areas where Board oversight could be improved include:

- While MIS compliance is well structured, there are limited compliance processes to provide assurance that all non MIS obligations are met
- The company does not have an internal auditor. Given the size of the business and its listed status, a greater investment is required in this area. Notwithstanding this, reviews are periodically commissioned which are internal audit in nature so good process is being examined

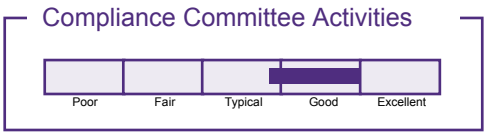
The RE Board comprises Tony Cannon & Michael Williams from the main Board and:

Director	Comments
Kerry Duncan Non-Executive Independent	Kerry holds a Bachelor of Law and was a practicing lawyer for over 30 years prior to retirement. He was a partner in a major law firm and specialised in financial services including public trustee companies, fund managers and responsible entities.
Gavin Wright Non-Executive Independent	Gavin holds a Bachelor of Arts (Legal Studies) and qualifications in teaching. He has completed the AICD Company Directors Course Diploma. In more recent years, he worked in financial advisory, both in his own firm and elsewhere. He is an industry representative on the Financial Industry Complaints Service.

This provides good independent oversight with three of four directors independent.

Compliance Committee Activities

The Committee is important to any managed investment scheme because it protects investors by ensuring that the compliance plan is followed. The independence and experience of the members is essential to its effective operation as is the quality of the resources which support it and the findings of the auditors. On the basis of the answers given and the additional information provided to us, we have rated Compliance Committee as follows:



The Compliance Committee members are described below. They comprise two independent members and one executive. Their experience is appropriate including legal, commercial, financial management and trustee management.

Committee Member	Comments
Ross Waining	Ross holds a Bachelor of Science (Forestry) and a Diploma of Forestry and has been working in the forestry industry since 1962. He is a Board member of Private Forests Tasmania, and the Forest Practices Board. This experience provides him with the ability to oversight operational aspects of the projects.
Scott Dawkins	Scott holds a Bachelor of Business (Accounting) and is a Chartered Accountant. His experience provides him with the ability to oversight financial aspects of the projects.
Kerry Duncan	Refer FEA Plantations directors. His experience provides him with the ability to oversight legal aspects of the projects.

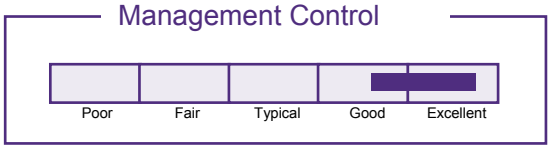
Strengths and weaknesses in the compliance process are summarised below:

- The Committee are provided with comprehensive information
- The Committee has a clear Charter
- Compliance is periodically tested however these resources have been somewhat limited – we note that FEA recently appointed a full time compliance person to supplement resources
- Independent experts reports are commissioned annually for each project
- Compliance Audit reports are unqualified

- For the first time, an external custodian is not proposed for the upcoming project – FEA needs to review its internal resources to ensure there is appropriate segregation and oversight of investor's funds

Management Control

Management Control is assessed having regard to the experience and qualifications of management as well as the internal control it establishes over the strategic, operational, financial and compliance aspects of the company's operations. On the basis of the answers provided and the additional information provided, we have rated Management Control as follows:



Key factors that have been considered in our rating include:

- Management provide weekly and monthly reports for their area of responsibility
- Policies have been well documented
- The company has invested heavily in new systems and is now able to generate flexible and easily accessed financial management information. Further work is now required in respect of developing structured operational reporting
- Both short, medium term and long term financial forecasts have been prepared. While the short and medium term forecasts appear to be appropriate, more work is required on long term forecasts
- Appropriate quality certifications have been obtained
- More work is required in respect of Business Continuity and Disaster Recovery Plans which have not been formally documented.

The basis on which ratings are assigned is set out below:

★ ★ ★ ★ ★	The company's corporate governance standards are of an exemplary standard and reflect better practice in all respects
★ ★ ★ ★	The company's corporate governance standards are of a high standard and reflect better practice in most respects however some minor exceptions were identified
★ ★ ★	The company's corporate governance standards are of a fair standard – a number of exceptions were identified
★ ★	The company's corporate governance standards are of a poor standard – a number of significant exceptions were identified
★	The company's corporate governance practices are totally ineffective

2008/09

AUSTRALIAN AGRIBUSINESS GROUP

FOREST ENTERPRISES AUSTRALIA LIMITED

PART B TRACK RECORD REVIEW – April 2009 (Updated August)

B

Part B AAG Track Record Rating

★★★★

Methodology

The Australian Agribusiness Group (AAG) Track Record Rating above is given out of a maximum of five stars. A rating may include quarter stars. This Track Record Review (Part B) should be read in conjunction with the Corporate Governance Review (Part A) and the AAG Project Review (Part C). This Track Record Review is designed to provide an Investor a clear independent third party assessment of the quality of past performance of the managers of this project. AAG undertake a significant level of due diligence to arrive at its opinion, relying on material provided by the manager, third parties and AAG's qualifications, experience and resources. We note that actual returns paid are one important element of track record, but not the sole focus of this report or rating.

Management of Previous Projects (page B2)

- Forest Enterprises Australia Limited (FEA) was established in 1985 and is a leading integrated forestry and forest products company.
- FEA is ASX listed (code: FEA) with a market capitalisation of $50 million at 1 July 2009.
- The Responsible Entity (RE) for all past projects is FEA Plantations Limited (FEA Plantations).
- The on-ground management for all past projects is undertaken internally by FEA.
- FEA's profit guidance in July 2009 notes a likely loss for FY2009 in the order of $6-8m due to circumstances discussed within this report.

Past Projects (page B3)

- FEA has released a total of 17 forestry Managed Investment Schemes (MIS) to the investment market since 1993.
- The total funds raised by FEA for its forestry projects is $417 million, which has enabled the establishment of 72,000 hectares of plantation.

Markets and Marketing for Past Projects (page B5)

- FEA has conducted harvesting operations for seven projects to date, with the logs harvested from these projects sold on a stumpage basis and processed by FEA's timber division. The pulp logs were sold to jointly-owned SmartFibre Pty Ltd (SmartFibre).
- FEA Plantations has entered into sales agreements with FEA for the 2005-2009 projects. There is a minimum floor price in place for the 2008 and 2009 projects.
- No formal agreements are in place for the company's earlier projects although the timber will likely be sold through the before mentioned companies.

Agricultural Performance and Returns (page B4 & B5)

- The performance of FEA's1993-1998 forestry projects have been promising to date, with most growth rates anticipated to meet or exceed forecasts.
- Inventory data for those projects released in 1999 and 2001 suggest that yields will be down on original forecasts and as a result, investors will be required to receive stumpage prices in excess of those forecast to achieve return estimates.
- Later projects, which account for three quarters of FEA's forestry estate, have not been inventoried given they are too young to provide meaningful data. AAG cannot comment on the likelihood of investors in these projects achieving forecast returns.
- Although FEA has proven its ability as a forestry manager in Tasmania, a large proportion of plantations (particularly in later projects) is located in northern New South Wales and southeast Queensland where there remains unknowns as to achievable yields.

Disclosure and Risks (page B6)

- FEA reports that no major risks have materialised in its 1993-1998 and 2000 projects and this is reflected by the strong growth rates achieved from these to date.
- Drought, combined with silvicultural and maintenance issues, some of which were caused by legislative issues resulting from the Ralph Report, have been the primary influences for growth rates in the 1999 and 2001 projects being lower than those originally forecast.
- Although inherent forestry risks such as drought and the effects of pests and disease may have slowed growth in some plantations in the 2002-2008 projects, FEA reports that no one specific risk has had any significant impact on investors in these projects.

Taxation (page B6)

- All key dates and prescribed activities in respect of the product rulings have been met for previous projects.
- To date, all investors have received their forecast taxation deductions as outlined in the respective project offer documents.

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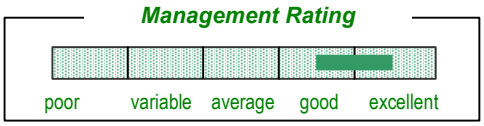
1 Management of Previous Projects



1.1 Highlights

⇒ 2009 – Gunns Ltd acquires 17.9% of FEA at a substantial discount
⇒ 2008 – FEA officially opens its $72 million state-of-the-art sawmill and processing facility in Bell Bay, Tasmania and records after tax net profit of $48.1 million after a record result of MIS Sales of approximately $114.5 million.
⇒ 2007 – FEA secures the major softwood resource supply in Tasmania under a long-term contract.
⇒ 2004 – ITC acquires 19% of FEA, increasing this to 30% by 2009.
⇒ 2003 – FEA commissions an export woodchip business in Bell Bay, Tasmania in which it has a 50% interest.
⇒ 2003 – FEA commences thinning operations from earliest MIS projects.
⇒ 2002 – FEA acquires a sawmill and woodchip production business in northern Tasmania.
⇒ 2000 – FEA lists on the Australian Securities Exchange (ASX).
⇒ 1993 – FEA releases its first hardwood eucalypt project to investors.
⇒ 1992 – FEA Plantations is established.
⇒ 1987 – FEA commences establishing eucalypt plantations both in its own right and on behalf of others.
⇒ 1985 – FEA is established.

1.2 Group Experience

Forest Enterprises Australia Limited (FEA) was established in 1985 and is a leading Australian integrated forestry and forest products company. FEA is an ASX listed company (code: FEA) with a market capitalisation of $50 million at 1 July 2009.

FEA has released 17 forestry MIS offerings since 1993 and has raised approximately $417 million in subscriptions to date. Its current MIS plantation estate stands at approximately 70,000 hectares. FEA Plantations, a wholly owned subsidiary of FEA, is the Responsible Entity (RE) for the MIS projects.

FEA also owns and manages a further 24,000 hectares of native forest and other freehold land in its own right. This includes the 2,100 hectare plantation estate which it acquired from the Brisbane Plantation Forestry Company Pty Ltd (BPFL) in late 2007.

FEA is heavily involved in the processing and marketing of timber products, operating a saw milling facility at Bell Bay in northern Tasmania and marketing its timber under the EcoAsh® and BassPine™ brands. FEA is also involved in the processing and marketing of wood fibre through managing and owning an interest in SmartFibre Pty Ltd (SmartFibre), an export woodchip facility also located at Bell Bay, Tasmania. SmartFibre was established in 2003.

Since AAG last reviewed FEA's Track Record, there has been a number of changes to the FEA Board of Directors, with Leslie Wozniczka and Donald Taylor resigning in October 2008. FEA has advised AAG that it is currently in the process of replacing these members. The five members that are currently Directors of the FEA Board are outlined below.

William Edwards, Non-Executive Chairman

B Arts, LLB, MAICD

Will Edwards is a practicing Solicitor with particular experience in estate planning, company law and property trusts. William also has a large amount of legal experience in relation to the timber industry including acting for and advising landowners, mill owners, logging contractors and public companies involved in the industry. He was admitted as a practitioner of the Supreme Court of Tasmania in 1993 and is currently the sole proprietor for Will Edwards Lawyers. He was appointed to the FEA Board in 2002.

Anthony Cannon, Executive Director

B Sc (Forestry), MIFA, MACFA, MAICD

Tony Cannon is a professional forester with over three decades of industry experience. Tony is one of the founders of the FEA group and, in his current position, is responsible for project development, government and industry relations and forestry technical issues. Prior to founding FEA in 1985, Tony supervised and managed a plantations programme for Forest Resources (later becoming Boral Timber Tasmania Limited) for a period of 10 years. Tony is heavily involved in a number of forestry organisations in an executive capacity and is also the Chairman of the RE, FEA Plantations.

Michael Williams, Non-Executive Director

B Bus (Acc), CA, CFP, GAICD

Michael Williams is a Chartered Accountant with over three decades tax, auditing and liquidating experience. He has been a Partner of Camerons Accountants and Advisors since 1987. Michael is also a Certified Financial Planner and an authorised representative of Professional Investment Services Pty Ltd. He joined FEA as a Non-Executive Director in 2002 and is also a Director of the RE. We note that Michael has had previous Directorship experience with FEA and its related companies prior to 2002.

Desmond King, Non-Executive Director

FAICD

Des King is an extensively experienced forester with in excess of 50 years experience in both the private and public sectors. His previous experience includes being CEO of Private Forests Tasmania for a period of seven years, working for the Tasmanian Department of State Development on projects associated with further processing of wood and timber in Tasmania and owning and operating a forestry contracting business. Des has held the Non-Executive Director position at FEA since 2002.

Vincent Erasmus, Non-Executive Director

Dip For

Vincent Erasmus is a qualified forester with three decades experience in the South African timber industry. Vincent is currently the CEO of the ITC group, a forestry company which also participates in the MIS industry and has a 31% stake in the FEA group. Prior to joining ITC, Vincent was employed by forestry and agriculture company, Hans Merensky Holdings Ltd, for a period of twenty years. During his tenure at Hans Merensky, Vincent held a number of positions including that of Executive Manager for Timber. Previous to this, Vincent was employed by the South African Department of Forestry for a period of ten years.

1.3 Financial Review

This review of FEA's financials was undertaken in April 2009 with a further update undertaken in July 2009. The data provided for the reviews was the 2008 Annual Report and the interim financials as at 31 December 2008. The full year accounts for 2009 have not been released at the time of this update although a profit guidance note released to the ASX on 17 July 2009 was available.

Table 1 – Overview of FEA's Consolidated Statement of Financial Position

	2008 ($'000)	*2007 ($'000)*	*Change*
Current Assets	$174,226	$133,206	+31%
Non-current Assets	$526,152	$309,546	+70%
Total Assets	$700,378	$442,752	+58%
Current Liabilities	$187,245	$112,790	+66%
Non-current Liabilities	$181,448	$41,830	+334%
Total Liabilities	$368,693	$154,620	+138%
Net Assets	$331,685	$288,132	+15%
Current Ratio	0.9	1.2	-21%
Interest Bearing Debt : Equity Ratio	0.4	0.2	+182%

Table 1 shows that FEA strengthened its financial position in FY2008, increasing its net asset position by 15% to $331.7 million. This follows the 55% increase in net assets FEA achieved between FY2006 and FY2007. From 30 June 2008 to 31 December 2008, FEA's current ratio improved from 0.9 to 1.1 respectively.

By 31 December 2008 Net Assets had declined to $297 million, an 11% reduction in 6 months during the global financial crisis.

FEA recorded an after tax profit of $48.1 million in FY2008, an increase of 29% on the previous financial year, and the company's sixth consecutive year of profit growth. The most recent full year results comparisons are found in Table 2.

Table 2 – Overview of FEA's Consolidated Statement of Financial Performance

	2008 ($'000)	*2007 ($'000)*	*Change*
MIS Sales Revenue	$57,000	$28,800	+98%
Other Revenue	$114,667	$91,509	+25%
Total Revenue	$171,667	$120,309	+43%
Total Expenses	$104,055	$67,619	+54%
Profit (b/t)	$67,612	$52,690	+28%
Profit (a/t)	$48,135	$37,271	+29%
EBITDA	$73,714	$55,949	+32%
MIS Sales : Total Revenue Ratio	33%	24%	+39%
Profit Margin	28.0%	31.0%	-9%
ROA	6.9%	8.4%	-18%
ROE	14.5%	12.9%	+12%
Interest Coverage	17 times	26 times	-34%

The increase in profit largely reflected increased revenues from new sales of the 2008 investment offering, with MIS sales revenue booked in FY2008 totaling $57 million, a significant increase (98%) from the previous year. At these levels of MIS sales the ROA and ROE figures outlined in Table 2 illustrate healthy profits.

The Half Year Results and the 30 June 2009 profit guidance show that the picture has substantially changed in the last 12 months. FEA's 2009 MIS sales fell 80% to just $23.3 million in line with the general MIS market which declined 78%. This has turned FEA from a profit position to one of a likely loss in the range of $6-8m. FEA notes reduced profits are due to the general economy, difficulties experienced in commissioning the new saw mill and higher interest costs in the global financial crisis.

FEA has not provided AAG with non-market information, and instead has provided a copy of a Linwar Securities equities research document. This document outlines pro-forma financials based on various MIS sales figures for 2009 and 2010. The $30 million sales scenario (note actual sales for 2009 was $23.3m) illustrates a NPAT of -$6.8m which is in line with the profit guidance issued by FEA. Whilst the Linwar research report notes that gearing levels are forecast to be just 36% but further notes declining negative cash flows and very thin interest cover forecast at just 0.5 times in FY2009 and at 1.0 times for FY2010. The interest coverage shows a dramatic fall from the levels seen in 2008 and 2007 as illustrated in Table 2.

The Linwar forecasts includes what may prove to be an aggressive assumption of $50 million in asset sales by FEA in 2010. Clearly, if these sales are not able to be achieved, then the financial position as forecast would be substantially pressured.

FEA successfully renegotiated its debt facilities with their banks, securing a $245m revolving line of credit including $10m in working capital, all of which have not been fully drawn. These debt facilities do not mature until January 2011. FEA informs AAG that it is not currently in breach of its lending covenants.

A substantial proportion of subscriptions for FY2008 were funded through a 12-month interest free payment option which was available through FEA. These loans are on the FEA balance sheet and as a result, investor default provides some risk to the company finances. FEA has advised AAG that its provision for bad debt is currently minor due to historical default rates of less than 0.25% of its loan book. FEA sold a portion of its loan book in late 2008 for $13m for 100 cents in the dollar and in is currently negotiating the sale of a further $6m of loan book.

FEA has been keen to reduce their reliance on MIS sales and increase revenues from the rest of its business. The new Bell Bay mill will assist in diversifying income streams, but will take some time to increase volumes.

Whilst FEA's debt position is operationally reasonable, it is the interest coverage that concerns AAG which will be a challenge to manage under the avenues available to it. We will read with interest the 2009 annual results and report.

AAG have had extensive discussions with FEA with regard to debt, working capital and balance sheet concerns. AAG look forward to the strategies outlined by FEA to AAG in those discussions being implemented over the next weeks and months. The success of these strategies will be critical for maintaining investor and shareholder confidence in FEA.

1.4 On-ground Manager

FEA carries out the on-ground management for all plantations under management internally. AAG considers FEA experienced in the management of hardwood timber plantations, evident by the large area it has under management and strong track record to date.

FEA employs a large pool of competent foresters with experience in the management of hardwood and softwood plantations. The overall management for FEA's forestry projects is overseen by the company's Chief Executive Officer (CEO), Andrew White and General Manager Plantations, Chris Barnes. FEA also has a Forestry Services division which provides internal audit and compliance, environmental and estate management services for past projects. This division is headed by the company's Director of Forestry Services, Tony Cannon. Andy Corbould is the Manager, Forestry Services Division.

Brief summaries of Andrew, Chris and Andy are outlined below. A summary of Tony's background can be found in Section 1.2.

Andrew White, Chief Executive Officer (CEO)

B Sc (For), AICD

Andrew White has over 20 years experience in the forestry industry and has held a number of senior management roles with major Tasmanian forestry companies. Prior to joining FEA as CEO in 2003, Andrew was employed by Gunns Limited in the positions of Forest Operations Manager and Wood Supply Manager. Other previous roles undertaken by Andrew includes Manager of Boral Timber Tasmania Limited and Planning Forester with Forest Resources.

Chris Barnes, General Manager Plantations

B Ag Sc (Hons), MBA, MIFA

Chris Barnes has over 16 years experience in the horticulture and forestry industries. Chris joined FEA in May 2007, prior to which he was employed by Gunns and its associated companies for a period of 11 years during which he held a number of senior positions, including Manager for Plantations and Walnuts. Prior to 1996, Chris was an Agronomist at Perfecta Produce which is a major Tasmanian grower, packer and exporter of fresh onions, swedes and cherries.

Andy Corbould, Manager Forestry Services

B Sc (Forestry)

Andy Corbould has 17 years experience in the forestry industry in both the public and private sectors in New South Wales and Tasmania. Previous positions Andy has held include Assistant District Manager at Forestry Tasmania (Bass), Land Acquisitions Manager at States Forests New South Wales (Future Forests Group) and Planning Manager at Gunns Limited (Tamar).

2 Past Projects

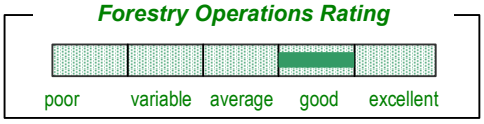
FEA has released a total of 17 forestry MIS projects to the investment market since 1993 and has approximately 72,000 hectares of plantation under management on behalf of these investors (3,400 hectares to be established in FY2010) (Table 3). The total funds raised to 30 June 2009 by FEA in releasing its previous offerings is $417 million, a large proportion of which was raised from the 2008 Project ($100.6 million).

Table 3 – Overview of FEA's previous projects

Project Name	*Year*	*Location*	*Size (ha)*	*Capital Raised ($m)*
FEA Plantations Project 2009*	2009	Tas; northeast NSW; southeast Qld, NT	2,250	$15.8
FEA Plantations Project 2008	2008	Tas; northeast NSW; southeast Qld	18,011	$108.2
FEA Plantations Project 2007	2007	Tas; northeast NSW; southeast Qld	9,196	$57.9
FEA Plantations Project 2006	2006	Tas; northeast NSW; southeast Qld	10,686	$67.3
FEA Plantations Project 2005	2005	Tas; northeast NSW; southeast Qld	9,026	$54.2
FEA Plantations Project 2004	2004	Tas; northeast NSW; southeast Qld	4,374	$26.2
Forest Enterprises Project 2003	2003	Tas; northeast NSW; southeast Qld	2,053	$11.1
Australian Forests Project 2002	2002	Tas; northeast NSW	406	$1.8
Australian Forests Project 2001	2001	Tas; northeast NSW	1,308	$7.0
Tasmanian Forests Project 2000	2000	Tas	1,993	$9.2
Tasmanian Forests Trust No. 7	1999	Tas; northeast NSW; southeast Qld	10,831	$50.8
Tasmanian Forests Trust No. 6	1998	Tas	948	$4.1
Tasmanian Forests Trust No. 5	1997	Tas	369	$1.3
Tasmanian Forests Trust No. 4	1996	Tas	204	$0.8
Tasmanian Forests Trust No. 3	1995	Tas	188	$0.7
Tasmanian Forests Trust No. 2	1994	Tas	166	$0.5
Tasmanian Forests Trust No. 1	1993	Tas	44	$0.1
Total			***72,053***	***$417***

** – does not include sales post June 2009 and is specifically the 2009 PDS*

3 Forestry Operations



The slide bar rating above summarises our view of the past performance of this commodity for investors and considers the likely future outcomes in the short term based on available data, site visits, discussions and other research.

3.1 Introduction

Project 2009 was the first year Mahogany was introduced and Project 2008 was the first time pine plantations were introduced as part of the FEA offerings. Both these species are either too newly planted or yet to be planted to be included for discussion in this section. This section only focuses on the native hardwood species being grown by FEA in the 13 and 16 year rotations.

New South Wales accounts for the greatest share of FEA's plantation estate (53%), followed by Tasmania (38%) and Queensland (9%). FEA's Tasmanian plantations are primarily stocked with Shining Gum (*Eucalyptus nitens*), while northern New South Wales and southeast Queensland plantings are predominantly stocked with Dunns White Gum (*E. Dunnii*), Rose Gum (*E. grandis*), Sydney Blue Gum (*E. saligna*), Blackbutt (*E. pilaris*) and Spotted Gum (*Corymbia citriodora spp*) varieties.

The 2008 release of FEA's Woodlot Project saw a process-led expansion for the company, with the company offering a Radiata pine (*Pinus radiata*) component to investors. As a result of the capital raising in FY2008, approximately 360 hectares of pine has been established in Tasmania. The 2009 PDS saw the first Mahogany plantation option. Pre-30 June sales in 2009 will result in just 37 hectares of this species being established in 2010.

3.2 Silvicultural Performance

FEA's earliest forestry projects where released under the premise that they would be clearfall harvested at 15 years of age, with only a provision that thinning may be undertaken. On the basis that it would provide higher returns to investors, FEA decided that it would include a thinning program for these plantations subsequent to their release of the investment. The results of the harvest operations which have taken place to date are outlined later in this section. Projects that were released post 1999 were established with the intention of performing thinning operations during the plantation rotation. All Projects released by FEA are now managed with the intention of producing both sawlogs and pulplogs.

As part of its management regime, FEA conducts an inventory program on all plantations at 6 years of age (pre-thinning inventory) and again just prior to clearfall. The data derived from this program provides FEA with an estimate of expected yields at harvest. To date, FEA has undertaken an inventory assessment of all projects released up to and including the 2001 offering. These results are provided on a Mean Annual Increment (MAI) (m^3/ha/year) basis as outlined in Table 4.

Table 4 – Overview of FEA's yield estimates for past projects

Project	*Original Target MAI (m^3/ha/year)*	*Estimated MAI at harvest (m^3/ha/year)*	*% Total Plantation Estate*
2009		Too young	3.1%
2008	28 m^3/ha/year	Too young	25.0%
2007	28 m^3/ha/year	Too young	12.8%
2006	28 m^3/ha/year	Too young	14.8%
2005	28 m^3/ha/year	Too young	12.5%
2004	28 m^3/ha/year	Too young	6.1%
2003	28 m^3/ha/year	Too young	2.8%
2002	28 m^3/ha/year	Too young	0.6%
2001	28 m^3/ha/year	19 m^3/ha/year	1.8%
2000	28 m^3/ha/year	28 m^3/ha/year	2.8%
1999	28 m^3/ha/year	22 m^3/ha/year	15.0%
1998	25 m^3/ha/year	32 m^3/ha/year	1.3%
1997	25 m^3/ha/year	27 m^3/ha/year	0.5%
1996	25 m^3/ha/year	29 m^3/ha/year	0.3%
1995	25 m^3/ha/year	20 m^3/ha/year	0.3%
1994	25 m^3/ha/year	29 m^3/ha/year	0.2%
1993	25 m^3/ha/year	35 m^3/ha/year	0.1%

As Table 4 indicates, FEA has targeted MAI rates of 25 m^3/ha/year for all 1993-1998 forestry projects and 28 m^3/ha/year for all later projects. FEA's first six projects (with the exception of the 1995 Project) appear to be achieving growth rates in line or above those targeted, although we do note that these projects only comprise 3% of FEA's total MIS estate under management. These growth rates do however compare very favorably to early forestry projects established by other MIS participants in the same period (Table 4).

Inventory data results for FEA's 1999 and 2001 projects, which comprise 16.8% of FEA's total MIS estate, suggest that yields will be down on those originally forecast. These Projects comprised mostly Tasmanian plantations and a small proportion of plantations located in northern New South Wales and southeast Queensland. FEA has reported that the Tasmanian plantings have generally dragged the average growth rates for the 2001 Project down, with dry conditions experienced during the time of establishment being the primary influence. Both Tasmanian and mainland trees have underperformed in the 1999 Project, with dry conditions in the early years following establishment (in Tasmania) and less advanced seedlings, genetics and the limited industry knowledge in the mainland plantings being the primary reasons for underperformance for this Project.

Because of young age, three quarters of FEA's MIS estate has yet to be inventoried. Without this data, it is not possible for AAG to provide any general comment as to the performance of this younger estate to date. Whilst the earlier projects are located in Tasmania, where FEA has performed reasonably well to date, a significant proportion of more recently released projects are located in northern New South Wales and southeast Queensland where there remain some unknowns as to achievable growth rates. We do note however, that FEA continues to improve its knowledge, experience and resources in these regions and has indicated its commitment to this region by establishing its national forestry headquarters in Lismore, New South Wales with around 35 employees.

In 2008, FEA completed the rotation of its 1993 project with impressive results. FEA reports that similar results are anticipated for its 1994 project which FEA will commence clearfall harvesting towards the end of 2009 FEA has also undertaken thinning operations from several subsequent projects. The volumes and prices achieved from these operations are outlined in Table 5.

Table 5 – Volumes and Prices for FEA's harvesting operations for the 1993, 1994, 1995 and 1996 Projects

Project	*Year of Harvest*	*Volume*	*Weighted average Stumpage Prices*
1993			
• Thinning	2002–2003	128 m^3/ha	$22.70 m^3
• Clearfall	2008	272 m^3/ha	$50.60 m^3
1994			
• Thinning	2003–2004	106 m^3/ha	$24.40 m^3
1995			
• Thinning	2005–2007	53 m^3/ha	$27.10 m^3
1996			
• Thinning	2006–2007	46 m^3/ha	$28.50 m^3
1997			
• Thinning	2007–2008	58 m^3/ha	$24.30 m^3

It is important to note that thinning operations from these projects were not included in the original prospectuses and, as such, investors will receive an unforecast return earlier than the year 15 clearfall harvest original forecast. The thinning operations may also provide investors in these projects with the potential for the production of higher value end products at clearfall which were not anticipated in the original offer documents, resulting in potentially increased investor returns.

As Table 5 shows, FEA achieved an average stumpage price of $50.60 m^3 for the timber clearfall harvested as part of the 1993 Project.

This weighted average price has formed the basis for stumpage estimate used by FEA at clearfall for the 2009 Option 1 Project. Based on the harvested yields for this Project from both the thinning and clearfall harvests, investors recorded an after-tax return of 7.3% per annum, providing total grower net harvest proceeds of $16,920 per hectare (inc. GST), approximately 45% higher than original offer document forecasts when discounted back to 1993 dollars.

The stumpage prices achieved from the thinning operations to date vary between $22.70 m^3 and $28.50 m^3, which we note are somewhat lower than those FEA is targeting for the 2009 Project. Note that volumes relate to thinning only a percentage of these projects, varying from 60% to 86% over the first four projects from 1993 to 1996. FEA has advised AAG that these lower prices are due to the small volumes of timber harvested and the general lack of scale for each of the earlier projects. As a result, harvesting costs were much higher than for the larger scale harvest operations that will be applicable for FEA's more recent projects. In addition, the pulpwood was shipped as blended plantation and native regrowth timber and, therefore, did not attract the premium that the plantation only pulpwood resource currently achieves.

3.3 Marketing Arrangements – Key points

⇒ FEA has conducted thinning and/or harvesting operations on 7 projects to date.

⇒ The sawlogs harvested from these projects were sold on a stumpage basis and processed by FEA's timber division, with the pulplogs sold to SmartFibre Pty Ltd (SmartFibre). A small proportion of logs were also sold to a non-related third party.

⇒ FEA Plantations has entered into sale agreements with FEA for the 2005-2009 projects. It is anticipated that FEA will process all the Tasmanian sawlogs at its Bell Bay sawmill facility and on sell the pulplogs for processing into wood fibre by SmartFibre. We note that there is a minimum 'floor price' in place for the hardwood component of the 2008 Project.

⇒ There are no formal agreements in place for FEA's earlier projects, but FEA has advised that timber from these projects which is located in Tasmania is also likely to processed by its sawmill in Bell Bay and SmartFibre.

⇒ FEA does not currently have the same scale of processing and export operations in northern New South Wales and southeast Queensland as it does in Tasmania (applicable for 1999-2008 projects). FEA has advised AAG of their intentions going forward in the region which includes the construction of a large scale processing facility which includes the potential for value adding opportunities to complement the sawmilling operations at the site.

3.4 Returns

3.4.1 Costs

FEA has advised AAG that investors have not had to pay any extra costs or fees not originally outlined in the offer documents for any project marketed by FEA Plantations.

3.4.2 Yield

Please refer to Section 3.2.

3.4.3 Price and price growth escalation factor

As noted earlier, FEA has previously sold timber products from several of its earlier projects. Commentary on the prices achieved from these harvest operations is outlined in Section 3.2.

FEA has provided AAG with a matrix outlining the stumpage prices and price growth escalation factors it has assumed in all previous projects. When these stumpages are inflated to 2009 prices at the assumed price growth factor originally forecast, the expected stumpages for the majority of projects would be in the order of between $32 and $50 m^3, in line with current stumpage prices assumed by FEA for the 2009 Project.

We do note however, that two offerings released by FEA, namely the 1997 and 1998 projects, have stumpage prices in the vicinity of $70 m^3 (in 2009 dollars when the original stumpage estimate is indexed to the assumed price growth escalation factor, which in turn was based on the rate of inflation current over that period). Based on current woodchip prices, AAG believes it very unlikely that investors in these projects will receive these prices at harvest.

3.4.4 Inflation on costs

FEA used inflation estimates ranging between 5% and 8% for the projects released prior to 1999, with estimates of between 2.5% and 3.0% assumed for later projects.

Given the average rate of inflation in the past decade (2.5%) and the Reserve Bank of Australia (RBA) mandated target rate of inflation (between 2.0% and 3.0%), we believe the company's estimates post 1999 remain valid. In comparison, the inflation estimates assumed by FEA prior to this time are considered very high and no longer valid.

3.4.5 Likelihood of achieving the forecast returns for previous projects

Based on inventory data and given current timber prices, AAG believes that it is relatively likely that investors in FEA's earlier projects (1993-1998 and 2000), which comprise approximately 3% of FEA's forestry estate, will receive returns in-line with or in excess of those originally projected. This is a strong result, given that most forestry MIS projects released in the same period will struggle to meet their projections and provide similar returns to their investors.

Inventory data for the two projects released in 1999 and 2001 suggest that yields will be down on those originally forecast and, as a result, investors will be required to receive stumpage prices in excess of those forecast to achieve return estimates.

Later projects have not been inventoried and as such it is difficult to comment on the likelihood of investors in these projects achieving forecast returns. Whilst the earlier projects are located in Tasmania, where FEA has performed well to date, a significant proportion of these more recently released projects are located in northern New South Wales and southeast Queensland where there remain some unknowns as to achievable growth rates.

3.4.6 Risks

FEA reports that no major risks have materialised in its earliest projects (1993-1998) and this is reflected by the strong growth rates achieved from these offerings to date.

As illustrated in Table 4, growth rates for FEA's 1999 and 2001 projects are lower than originally forecast. FEA states that drought, combined with the establishment of these plantations silvicultural and maintenance issues caused by legislative issues were the primary influences for these results.

Although inherent forestry risks such as drought and the effects of pests and disease has slowed growth in some plantations included in later released 2002-2008 projects, FEA reports that no one specific risk has had any significant impact on investors in these projects. AAG does note that the unknowns surrounding achievable growth rates in FEA's mainland regions will continue to be a risk for investors in these later projects.

4 Taxation

FEA has informed AAG that all key dates and prescribed activities with respect to the product rulings have been met with respect to previous projects, with all investors receiving the forecast deductions as outlined in the project offer documents.

5 AAG Opinion

AAG use a model that has been developed in-house to rate Managed Investment Schemes. Numerous points of assessment are made to ensure the important aspects of a project and project manager are assessed on an even basis.

Ratings are out of five stars in quarter star increments.

The report should be read in its entirety and in conjunction with Part A – Corporate Governance Review (Grant Thornton) and Part B – Track Record Review (AAG).

The opinion of AAG is outlined throughout the report and a summary is found on page 1.

★★★★★	AAG believes that the Manager **will** achieve outcomes which substantially exceed the agri, risk or return results which are the average acceptable levels of performance appropriate for this asset class.
★★★★	AAG believes that the Manager **will** achieve agri, risk or return outcomes which exceed average acceptable levels of performance appropriate for this asset class.
★★★	AAG believes that the Manager **may** achieve agri, risk or return outcomes which meet minimum acceptable levels of performance appropriate for this asset class.
Less than ★★★	AAG believes that the Manager **will not** achieve agri, risk or return outcomes which are appropriate for this asset class.

AUSTRALIAN AGRIBUSINESS GROUP

FEA PLANTATIONS PROJECT 2009

PART C PROJECT REVIEW – April 2009 (August Update)

C

Part C AAG Project Rating

Option 1	Option 2	Option 3	Option 4	Option 5
★★★★	★★★★	★★★¾	★★★¾	★★★★

Methodology

The AAG Project Rating above is given out of a maximum of five stars. A rating may include quarter stars. This Project Review (Part C) should be read in conjunction with the Grant Thornton Corporate Governance Review (Part A) and the AAG Track Record Review (Part B). This Project Review is designed to provide comment on the PDS offering to give an investor a clear independent third party assessment of the quality of this project. AAG undertake a significant level of due diligence to arrive at its opinion, relying on material provided by the promoter, third parties and AAG's qualifications, experience and resources in order to provide a sound understanding of this offer.

Project Features

Application Cost per Unit (ex GST) • Option 1, Option 2, Option 3 & Option 4 • Option 5	 $3,450 $23,000 (comprising 7 Woodlots)
Min Number of Interests per Investor • Option 1, 2, 3 & Option 4 • Option 5	 1 Woodlot 7 Woodlots
Asset Ownership	Nil
Size of Unit • Option 1, 2, 3 • Option 4 • Option 5	 0.5 hectares 0.2 hectares 3.2 hectares
Land Sourcing & Management Fees (ex GST)	15% - 20% of Harvest Proceeds
AAG Estimated Returns (IRR after tax) • Option 1 • Option 2 • Option 3 • Option 4 • Option 5	 7.0% (3.1% – 9.9%) 7.8% (3.6% – 11.2%) 6.5% (5.3% – 7.6%) 8.2% (5.4% – 10.5%) 7.5% (4.2% – 10.1%)
Project duration • Option 1 • Option 2 • Option 3 & Option 5 • Option 4	 14 years 17 years 26 years 19 years
Close Date for investment in this project	30 June 2010
Benefit Cost Ratio (@ 7%)	Refer to Table 8
Breakeven thresholds:	Refer to Table 8
Product rulings for each respective Project	Refer Section 9.1

Management (page C4)

- The Responsible Entity (RE) is FEA Plantations Limited (FEA Plantations), a subsidiary of Forest Enterprises Australia Limited (FEA).
- FEA has released 17 forestry MIS projects to investors since 1993 and has approximately 72,000 hectares of plantations under management.
- While an experienced operator in the hardwood plantation industry and to a lesser degree, the radiata pine industry, FEA is comparatively much less experienced in the African mahogany industry.

Fees (page C6)

- The fees for all five Options appear reasonable when compared against similar timber projects.

Markets for this Project (page C4)

- The majority of Australia's sawn hardwood and softwood products produced from Australian forests and plantations are directed to the domestic market. Australia generally relies on imports to fully meet demand for these products.
- The vast majority of Australian hardwood and softwood woodchip production is exported. Australia has a long history in the hardwood and softwood pulpwood market and is the leading exporter into Japan, the leading importer of the resource.
- Australia does not currently supply African mahogany to the world market. Although current market dynamics suggest there will be high demand when product from Australia comes on line, just how the market will react when large volumes of the timber is sold to market is unknown.

Marketing (page C5)

- FEA Plantations has entered into a Wood Purchase Agreement with FEA for 100% of timber produced from the Project.
- There is a "Floor Price" mechanism in place for investors in Option 1 and Option 2 which protects them against major falls in timber price and increases in harvesting costs. No such mechanism is in place for Option 3 and Option 4 investors.

Agricultural Parameters and Returns (page C2 & C7)

- The estimated base level returns for Options 1, 2, 3 and 5 are acceptable for projects of their type, while the returns for Option 4 are low for a high value timber project.
- Returns for each investment Option are very robust to changes to the major variables. This is primarily a function of the back end fee structure in place.

Disclosure and Risks (page C12)

- Climatic variability has the potential to impact growth rates in all regions.
- There is only a limited history of commercially growing African mahogany in Australia, providing additional agricultural and marketing risks to investors in Option 4.
- The failure to achieve the estimated price is another risk, although investors in Option 1 & Option 2 are protected to some degree by the 'floor price' mechanism.

Taxation (page C13)

- FEA has received Product Rulings for each of the five options for post 30 June Investors.

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1 Project Structure – What do I get?

1.1 What is the project?

The FEA Plantations Project 2009 (ARSN: 136 438 616, the 'Project') enables investors the opportunity to participate in a range of forestry investments. FEA has also released a supplementary PDS dated 16th June 2009. This report is an update to our previously released report on the aforementioned scheme incorporating revisions to account for Post 30-June Investors. Whilst not specifically stated in the PDS, we understand post 30-June Investors will be pooled with those who invested on or before 30 June 2009.

The following are the different options for investment in the project:

- *Option 1* – Eucalypt hardwood producing unpruned sawlogs and pulp logs for approximately 13 years;
- *Option 2* – Eucalypt hardwood producing pruned sawlog, veneer and pulp logs for approximately 16 years;
- *Option 3* – Radiata pine producing sawlog, veneer and pulp logs for a period of approximately 25 years;
- *Option 4* – African mahogany producing sawlogs aimed at the high value market for a period of approximately 18 years; and
- *Option 5* – combination of Woodlots in Option 1 (four Woodlots), Option 2 (one Woodlot), Option 3 (one Woodlot) and Option 4 (one Woodlot).

FEA Plantations has advised that the Project can accommodate approximately 32,500 Woodlots (equivalent to 16,250 hectares), with a capacity for oversubscriptions. In 2009 FEA received investments for this project to cover approximately 2,250 hectares, so Post 30-June Investors are able to take up the balance.

The unit of investment in the Project is termed a Woodlot. A Woodlot in Option 1, 2 and 3 represents 0.5 hectares of plantation, while a Woodlot in Option 4 represents 0.2 hectares of plantation.

The rights and responsibilities of both the Responsible Entity (RE) and individual investor for the Project are outlined in the Constitution. This includes reference to investors contracting the RE to provide the land and all the services required for the establishment, management, harvest and sale of products from the Project.

1.2 What is the minimum subscription?

The minimum subscription for investors in Option 1, Option 2, Option 3 and Option 4 is one Woodlot. The minimum subscription for Option 5 is a combination of four Woodlots in Option 1 and one of each in Options 2, 3 and 4 providing a total of seven Woodlots.

There is no minimum subscription that must be raised for the Project to commence, therefore the Project will proceed irrespective of how many interests have been subscribed.

1.3 Can I share in any land/management ownership?

Investors do not directly share in the ownership of the assets or management of the Project, but FEA Plantations offers a separate FEA Timberlands Fund which provides for investment in forestry land which will be used for this and other FEA projects.

1.4 Is there an exit strategy?

Initial investors in forestry MIS projects are allowed to trade their interests once they have been held for a period of at least four years. We do note, however, that there is no highly visible private or industry 'secondary market' in operation at the time of releasing this report. Nevertheless, we do expect such 'exchanges' to be in operation in the future.

Option 3 involves a buy-back option at around year 16 of the Project term providing investors a greater degree of liquidity than otherwise would be the case. FEA has advised AAG that the price offered by the RE will be based upon a minimum of 90% of the value as determined by an independent valuation of the woodlot at that time. The acceptance of the offer is solely at the discretion of each Option 3 investor.

1.5 Handling of Investors Funds

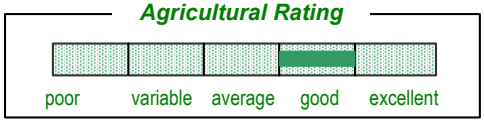
Following the collapse of Timbercorp and Great Southern in late FY2009, there has been considerable discussion surrounding the handling of investor application money and ongoing funds. There have been several submissions to the two parliamentary inquiries which have called for changes to the way funds are handled. Following the completion of these inquiries, there may well be statutory changes or, at the very least, suggested changes to what is considered best practice.

It is fair to say that whilst most of the MIS managers in 2009 would have complied with ASIC requirements regarding handling of funds, very few that AAG is aware of would reach the levels of best practice that AAG now expects. FEA has outlined to AAG the flow of funds for investors' application monies and this appears to be acceptable under current guidelines but we would expect to see improvements to this process in future projects.

For this Project, whilst investors' application monies are deposited into the Custodian's Application Account following investment, the money is quickly transferred into FEA's trading account. The constitution does not specify any timeframes around transfers between accounts. Once in FEA's trading account the monies are essentially consolidated revenue. It is up to FEA to ensure that they have sufficient funds available to establish and plant the trees, a process which may not occur for up to 18 months following application. FEA is required to fund the ongoing maintenance of the trees and any payment of leases out of its consolidated revenue for the term of the project. There is no requirement under law or ASIC guideline for FEA to quarantine any portion of investor's application money for future maintenance and lease costs. Whilst we would consider it best practice for FEA to quarantine some of the application money to fund future obligations specifically for each project, at the time of release of this Project such an allocation of funds was not generally considered necessary.

Investors must be aware that any failure on behalf of FEA at any stage throughout the life cycle of this investment, and in particular before the trees are actually planted, will be detrimental to the value of their investment. Investors should refer to the review of the financials outlined in Part B Track Review for some analysis on the financial strength of FEA.

2 Agricultural Feasibility and Assumptions – Is it agriculturally sound?



2.1 Where is the project located?

The location of Project plantations will vary according to the Option subscribed. The Eucalypt hardwood plantations included in Option 1 and Option 2 will be located in Tasmania, northern New South Wales and southeast Queensland, and the Radiata pine softwood plantations included in Option 3 will be located in Tasmania (Table 1). The African mahogany plantations in Option 4 will be located in the Douglas Daly and potentially other regions of the Northern Territory.

Table 1 – Location of Project plantations

Plantation	Location
Option 1 & Option 2	Northern NSW, southeast Queensland and Tasmania
Option 3	Tasmania
Option 4	Northern Territory

Tasmania is one of Australia's most important forestry regions accounting for approximately 14% of Australia's hardwood and softwood plantations in 2007 (by area). Tasmania has a highly developed forestry industry with sawlog and woodchip export facilities operational in the State, including those managed by FEA. FEA commenced its operations in Tasmania in 1985 and has approximately 20,100 hectares of plantation under management in the State.

Whilst public organisations have been establishing softwood and hardwood plantations in northern New South Wales and southeast Queensland for several decades, it is only in relatively recent years that publically listed companies such as FEA have established plantations of any scale. FEA has been operating in the region since 1999 and is the largest corporate grower in the area with approximately 33,300 hectares under management. A large portion of the plantation to be established for this project will be in NSW on 2nd rotation eucalypt plantation sites managed by Forestry NSW. AAG have inspected this land and believe it to be of a high quality.

FEA intends to establish a small proportion of hardwood plantation on second rotation sites in Tasmania, including those which were established as part of FEA's 1993 and 1994 Projects. Growth rate data and actual results achieved from these sites suggest that they have the capacity to meet the production targets put forward by the company for this Project.

The main property on which FEA will establish the African mahogany plantations is located within the Douglas Daly region, approximately 150 kilometres inland from Darwin. This area is characterised by a sub-tropical climate with distinct wet and dry seasons and an annual rainfall of approximately 1,200 mm per year. According to the Independent Forester for the Project, the African mahogany species is well adopted to the climatic conditions of the region. Whilst it has been grown in trials in the Northern Territory since the 1960's, African mahogany has not been grown on a commercial scale until recent times. There are approximately 4,000 hectares of African mahogany currently grown in the Douglas Daly region, including trees planted on 700 hectares of land purchased by FEA in 2008 and leased to investors in an unrelated project.

2.2 What is the plantation management regime?

The ground preparation methods FEA will implement across the Project plantations will ultimately depend on the species to be established, the slope of the land and the conditions of the site. For any first rotation site, FEA will rip and mound planting lines parallel to the contour of the site. As part of its pre-plant establishment regime, FEA will spray a knockdown and residual herbicide mix along the planting line to kill the weeds and minimise further germination after planting. On the steeper sites and those plantations which are on their second rotation, FEA will likely undertake spot cultivation. Under this program, FEA will construct mounds for each individual tree and apply similar herbicides to kill and ward off weeds on the site. Both pre-plant methods are supported by the Independent Forester.

FEA intends to establish the hardwood species included in Option 1 and Option 2 at approximately 1,200 trees per hectare (Table 2). FEA will source seedlings for the shining gum species from seed-orchard seed derived from Victorian and New South Wales provenances, while a mixture of seed orchard seed and selected provenances will be used for the other Eucalypt hardwood species. While shining gum is proven as a plantation species, not as much is known about the growth rate capabilities of the other species outlined in Table 2. This provides some additional risks to investors looking to invest in Option 1 and Option 2.

The silvicultural approach for these Eucalypt hardwood species will ultimately depend on the Option for which they are being utilised. The rotation length of Option 1 plantations will be approximately 13 years with unpruned sawlogs and pulp logs produced at clearfall. Option 2 plantations will be grown for a period of approximately 16 years with higher value sawlogs and pulp logs harvested at clearfall (Table 2). FEA will implement a thinning program in year 9 for plantations included in both Options. Eucalypts included in Option 2 are scheduled for selective pruning at approximately 3, 5 and 7 years of age.

Table 2 – Summary of plantation management regime

	Option 1	Option 2	Option 3	Option 4
Species	Shining gum (*Eucalyptus nitens*), Dunns white gum (*E. dunnii*), Sydney blue gum (*E. saligna*), Spotted gum (*Corymbia citriodora*), Blackwood (*E. pilularis*)		Radiata pine (*Pinus radiata*)	African mahogany (*Khaya senegalensis*)
Stocking	1,200 trees/ha		1,330 trees/ha	1,200 trees/ha
Rotation	13 years	16 years	25 years	18 years
Thinning Harvest	Year 10		Year 14 and 19	Year 12
Clearfell Harvest	Year 14	Year 17	Year 26	Year 19

Radiata pine softwood, which forms Option 3, will be planted at approximately 1,330 trees per hectare, with investors receiving income from thinnings in year 14 and year 19, and from clearfall in year 26 (Table 2). Radiata pine is the most widely established softwood species in Australia, and FEA will source seedlings from improved seed stock.

The proposed rotation length of the African mahogany plantations included in Option 4 is 18 years (Table 2). FEA will establish these plantations at approximately 1,200 trees per hectare. Stem pruning, conducted at the manager's expense, will be in two or three lifts at about year 3, 5 and 7 for the purpose of producing about 350 to 400 stems per hectare of better-formed trees. A commercial thinning is planned around year 12 and the clearfall of the remaining trees around year 19.

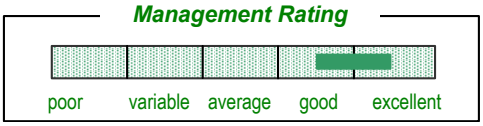
Tree genetics has a major influence on growth rates and tree form and is an important component when looking at forestry plantations. Because of the limited history of growing African mahogany in plantations in Australia, the vast majority of seed stock sourced by Australian growers is selected from native provenances in Africa. FEA is no different and has advised AAG that it has supervised its own seed collection in western Africa. Given that this seed stock is unimproved, we expect to see significant variability in the quality of trees established for this component of the Project. This is the reason initial plantings will be stocked at a high rate so that the commercial thinning around year 12 should leave about 350 to 400 of better formed trees for clearfall.

African mahogany plantations visited by AAG has have generally displayed significant variation. The immaturity of the commercial African mahogany industry in Australia means that there may be mixed results from this species. For this reason, AAG believes that the African mahogany Option 4 investment is the highest risk option.

The control of weeds during the early stages of the Project is extremely important to the final outcome to investors, particularly for those plantations located in northern New South Wales, southeast Queensland and the Northern Territory. Although FEA is experienced in the management of plantations in northern New South Wales and southeast Queensland and has been relatively successful in the management of weeds in this region to date, it has had very limited experience in the Northern Territory. AAG has visited the Douglas Daly region on several occasions and there is no doubt that FEA will be on a steep learning curve in managing weeds in the region.

The RE will provide investors with a stocking guarantee of 90% for each plantation property, guaranteed for a period of three years from the date they are registered as a holder of a Woodlot, or until commencement of general insurance cover for the plantations in the second growing year, whichever is the earliest.

3 Management – who is running the business for me?



3.1 What is the Corporate Structure?

The Responsible Entity (RE) is **FEA Plantations Limited** (FEA Plantations), a wholly owned subsidiary of **Forest Enterprises Australia Limited** (FEA).

FEA has been engaged by the RE to undertake the on-ground management functions of the Project and will purchase all the timber harvested from the Project under a Wood Supply Agreement. FEA has also been appointed Custodian of the Project.

SmartFibre Pty Ltd (SmartFibre) and FEA's timber division may be involved in the purchase of timber from FEA. SmartFibre is 50% owned by FEA with the balance owned by Elders Ltd.

FEA and **United Pacific Securities** (UPS) are both sources of finance for investors in the Project.

3.2 Is the Responsible Entity Skilled and Experienced?

FEA was established in 1985 and is a leading Australian integrated forestry company. FEA was listed on the Australian Securities Exchange (ASX) in 2000 (code: FEA).

FEA has released 17 forestry MIS offerings to investors since 1993 and has raised approximately $417 million in subscriptions. FEA's MIS plantation estate currently stands at approximately 72,000 hectares. It owns and manages a further 25,000 hectares of plantations and native forest and other freehold land.

FEA is heavily involved in the processing and marketing of timber products. FEA's timber division manages the production and marketing of FEA's sawn hardwood and other timber products. FEA is also involved in the processing and marketing of wood fibre through SmartFibre, a partly owned export woodchip facility also located at Bell Bay, Tasmania.

The FEA Board of Directors is experienced in a range of industries. Details on the FEA Board of Directors are included in Section 1.2 of the Part B Track Record Review.

3.3 Is the on-ground Manager Skilled and Experienced?

FEA is an experienced manager of Eucalypt hardwood timber plantations, evidenced by its long association in the industry and significant area of this timber resource under management. Although as a company FEA has less experience in the management of Radiata pine, we are confident in its ability to successfully manage this resource given that FEA employs foresters experienced in the management of Radiata pine.

As a company, FEA has no previous experience in African mahogany. It does, however, employ several people who have previously been involved in the establishment and management of the African mahogany plantations purchased by the company in 2008. The establishment and management regime implemented for tropical timber species such as African mahogany is significantly different to that which is applied to more conventional species such as those grown by FEA in southern regions. Northern Australia is a difficult region to grow trees in plantations, with weed competition, challenging climatic conditions and isolation meaning that on-ground management have to be extra vigilant in the management of the trees. Whilst FEA is employing people with some experience in the management of African mahogany, there is no doubt that FEA will be on a steep learning curve establishing and managing this species. It is crucial that investors recognise this risk prior to investing in Option 4 (and Option 5).

FEA's on-ground management team is headed by the company's General Manager for Plantations, Chris Barnes, located in FEA's national forestry headquarters in Lismore, New South Wales. FEA's Forestry Services division is located in Launceston, Tasmania which will provide the internal audit and compliance, environmental and estate management services for the Project. This division is headed by the company's Director of Forestry Services, Tony Cannon. The Manager Forestry Services is Andy Corbould.

Chris Barnes, General Manager Plantations

B Ag Sc (Hons), MBA, MIFA

- Joined FEA in May 2007.
- 16 years horticultural and forestry experience.
- Former employee of Gunns and its associated companies for a period of 11 years.
- Former Agronomist at Perfecta Produce which is a major Tasmanian grower, packer and exporter of fresh onions, swedes and cherries.

Tony Cannon, Director Forestry Services

B Sc (Forestry), ANU, MIFA, MACFA, MAICD, RPF

- Professional forester with over three decades industry experience.
- One of the founders of the FEA group in 1985.
- Former employee of Forest Resources (later becoming Boral Timber Tasmania Limited) for a period of 10 years.
- Heavily involved in a number of forestry organisations in an executive capacity.

Andy Corbould, Manager Forestry Services

B Sc (Forestry)

- 17 years experience in the forestry industry in both the public and private sectors in New South Wales and Tasmania.
- Former Assistant District Manager at Forestry Tasmania.
- Former Land Acquisitions Manager at States Forests New South Wales.
- Former Planning Manager at Gunns.

4 Market Overview – where will the product be sold?

4.1 Hardwood pulpwood component

Japan is the major export destination for the world's hardwood woodchips placed on the trading market. Australia is the leading exporter of hardwood woodchips to the Japanese market, accounting for a 34% share in 2007. Australia's main competitors into this valuable market include South Africa and Chile.

All of Australia's woodchip resource is exported overseas. Not surprisingly, Japan is Australia's most important hardwood woodchip market, accounting for 89% of Australia's exports in FY2007. Other notable importers of Australia's hardwood woodchips are Taiwan (6%), South Korea (5%) and China (2%).

Although hardwood plantations have been grown in Australia since the 1950's, it was not until recent times that Australia witnessed major growth in hardwood plantations. As a result, the vast majority of timber harvested for woodchip purposes has traditionally been sourced from native forests, a resource which is currently in decline due to government policies. In recent years, the area and subsequent volume of timber harvested from hardwood plantations has increased significantly, albeit from a relatively small base.

As more plantations reach harvesting age (generally between 10-14 years), the mid to long term future of the Australian industry is expected to be dominated by the plantation resource and, in doing so, changing the supply and demand balance for the woodchip product. Whilst woodchip prices have climbed substantially during the past 12 months (mostly as a result of demand pressures in Japan), it is too early to tell what impact the future burgeoning supply of pulpwood from hardwood plantations will have on the market.

4.2 Sawn hardwood component

In Australia, sawn hardwood timber is predominantly sourced from native forests, with a small amount also being sourced from plantations. Due to the reduced availability of native forests for logging, production of sawn hardwood timber in Australia has declined significantly. As such, Australia relies on imports to meet demand for sawn hardwood.

The primary use of sawn hardwood in Australia has traditionally been the framing and structural timber markets, with feature flooring and furniture component products being a small but still important market. Due to increasing competition from softwood timber, domestic demand for sawn hardwood products has actually mirrored domestic production, falling significantly over the past decade. As a result, an increasing trend has seen sawn hardwood timber used in higher value products such as feature flooring, bench tops and furniture components.

Veneer can be broadly divided into two main categories with decorative veneer used at the higher end of the value adding chain and structural veneer primarily used in the production of plywood. Although Australian exports of veneer have increased over the past decade, the country is still a net importer of decorative and structural veneers, with Spain and New Zealand being the leading exporters of the resource into the country.

4.3 Sawn softwood component

The primary market for the Australian softwood industry is the sawlog market, with the market for pulpwood products (such as woodchips) and wood based panels being an important but less valuable component of the industry.

Most of the sawn softwood produced in Australia is consumed locally with excess demand met by imports, therefore resulting in a relatively small amount of export. The majority of sawn softwood is used for house framing, with it also being a valuable resource for its use in decking, fencing, furniture and joinery. All of Australia's softwood woodchip exports are sent to Japan, with Australia being the major exporter of softwood woodchips into Japan.

The rate of development of new softwood plantation areas remains relatively low. With only limited capacity to increase the volume of softwood sawlogs harvested in coming years because of the relatively low establishment rate of softwood plantations in addition to the continuing increase in demand for softwood products, it can be expected that competition for softwood resources in Australia will rise.

4.4 African mahogany component

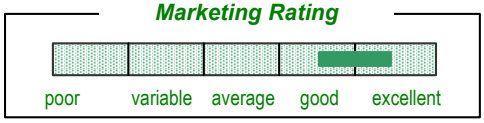
Khaya senegalensis, along with several other species in Africa, falls under the common name of African mahogany. Native to central Africa, *K. senegalensis* has traditionally been used for furniture, cabinetwork, joinery, fixtures and interior decoration purposes.

Due to the illegal logging of African mahogany and political instability in countries where the tree is native, there is very little data identifying the exact volume of production and trade of the timber. The tree is predominantly sourced from central Africa, however over-logging has resulted in these countries imposing limits on raw log harvest and export of the species. The US is the leading importer of the timber, using it as a substitute for American mahogany in the furniture sector. Other leading importers of *K. senegalensis* include the UK and China, with furniture the predominant use of the timber in both countries.

In the past couple of decades, *K. senegalensis* has been planted in plantations across Asia and northern Australia. *K. senegalensis* was first introduced to Australia in Darwin where it was planted as a street tree in the late 1950's. Since then the timber has been planted in a number of trial and commercial plantations across northern Australia.

As commercial African mahogany plantations were only recently established, Australia does not currently supply the timber resource to the world market. Despite the current demand for the species being high relative to supply, it is unknown what the demand will be for the timber in Australia or on the international market when harvesting does commence in Australia, which isn't expected to occur for at least another decade. This provides a major risk to investors who invest in this Option 4, but we recognise FEA has substantial experience in marketing timber.

5 Marketing – how will the product be sold?



FEA Plantations has entered into a Wood Purchase Agreement with FEA, which relates to the purchase of all the timber harvested from the Project.

Under the terms of the Wood Purchase Agreements, FEA will pay the prevailing market stumpage price at the time taking into account the proposed end-use of the timber and the prices being paid by other purchasers for similar product in the respective area. Although the RE can choose to sell the wood to another buyer, one potential issue is the transparency of the transaction and the obligations of FEA Plantations to act honestly and fairly to its growers, while on the other side maximising shareholder value for its parent entity. The PDS states FEA Plantations believes it is in the best interests of investors to sell on a stumpage basis (to FEA); AAG is not so sure.

Whilst from a Project marketing point of view, FEA has a vested interest in ensuring the returns to growers are as high as possible, as a company, FEA has also has a vested interest in buying timber cheaply, and AAG sees this as a potential issue. The role of the compliance committee will be central to ensuring investors receive a fair price at the time. FEA informs AAG that it has a process in place for the independent forester to review all written offers ensuring that all sales of investors' timber are conducted at a fair and reasonable price. This review is also signed off by the independent Directors of the RE.

For timber harvested from Options 1 and Options 2, FEA has a mechanism in place under which the price paid to investors will not be less than the 'Floor Price,' which is linked to the price received by FEA for the final product. There is no doubt that the floor price mechanism will be advantageous to investors in these two options. We discuss the Floor Price mechanism for these investment options in more detail in Section 7.1.3. FEA has no Floor Price mechanism in place for the Radiata pine Option 3 or African mahogany Option 4.

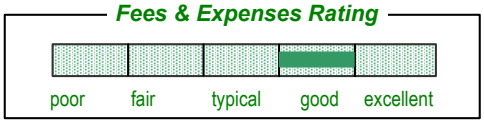
In Tasmania, FEA is likely to on-sell the hardwood and softwood products purchased from Project investors to FEA subsidiaries already in operation including SmartFibre, which is likely to purchase pulp logs harvested from the Options 1, 2 and 3 plantations located in Tasmania. FEA manages SmartFibre (50% owned), which is a woodchip processing facility located at Bell Bay in Tasmania. SmartFibre produced and exported approximately 500,000 tonnes of wood fibre to manufacturing customers in Japan in 2008 and is an experienced operator in the industry.

FEA's timber division manages a modern sawmilling facility at Bell Bay in Tasmania and is likely to purchase the sawn timber products harvested in the State. FEA's timber division markets much of its timber product under the EcoAsh® and BassPine® brands, which are currently retailed across Tasmania and in most Australian States through some of Australia's largest hardware and building products businesses. A number of developments have occurred at FEA timber division in recent times, with the company recently undertaking a $72 million expansion of its sawmilling operations and the company securing a 10 year 290,000 m^3/year softwood log purchase agreement with Taswood Growers, the state's major softwood plantation owners. These developments will only serve to benefit investors in the Project.

FEA does not currently have the same scale of processing and export operations in northern New South Wales and southeast Queensland than it does in Tasmania. FEA has advised AAG of their intentions for the region, which include the construction of a large scale processing facility. FEA is currently undertaking feasibility studies into the specifications of the processing facility, including the potential for value adding. Although, for confidentiality reasons, we cannot discuss in detail, we do believe that any value adding opportunities would potentially provide upside to investors in the Option 1 and Option 2 investments.

FEA currently has no processing or export operations in place for the African mahogany sawlogs in the Northern Territory as there is no timber available for either processing or marketing. FEA has advised AAG that it intends to construct a processing facility in the region, with the size and specifications of the facility yet to be decided and dependent on the size of the company's estate. In the event that a critical mass is not achieved, an alternative marketing strategy includes selling the sawlogs produced to existing timber processing plants located in the region. We do note, however, that the processing plants which are currently in operation in the region are small operations which would require substantial upgrading to efficiently process the sawlogs produced from this component of the Project. In the event that sawlog processing facilities were not developed, it is likely that investors' returns would be impacted.

6 Fees and Expenses – What does it cost?



6.1 What are the subscription and on-going fees?

FEA's fee structure for the Project involves a low upfront fee, with a large proportion of fees deferred as a share of harvest proceeds. AAG is generally supportive of this back-end fee model as it reduces return volatility to investors and heavily incentivises FEA to perform. Handling of investor funds and the strength of the parent entity are critical to the security of the investment.

The application fee payable by investors will depend on the Option subscribed, with investors in Options 1, 2 and 3 paying an application fee equivalent to $6,900 per hectare (Table 3). We believe this fee to be in line with or lower than other conventional forestry projects on the market.

The application fee for Option 4 is equivalent to $17,250 per hectare which we believe also to be acceptable for an investment of its type.

As Table 3 suggests, the application fee for investors in Option 4 is $23,000 for seven Woodlots across the four Options (the minimum investment). We note that this investment represents an approximate 5% discount on Woodlots being purchased individually.

Table 3 – Fees and Expenses for the Project

	Option 1	Option 2	Option 3	Option 4	Option 5
Application Fee per unit	$3,450				$23,000
Application Fee per ha	$6,900			$17,250	$7,188
Land Sourcing & Management Fees	18% of Harvest Proceeds (HP)		15% of HP	20% of HP	Note **2**
Pruning Fee					
• FY2013	N/A	$385	N/A	N/A	$385
• FY2015	N/A	$405	N/A	N/A	$405
• FY2017	N/A	$430	N/A	N/A	$430
Insurance	Optional				
Average NPV of costs per ha per year Note 1	$637 ($581 – $698)	$678 ($598 – $784)	$339 ($321 – $361)	$1,333 ($1,166 – $1,501)	$1,191 ($1,086 – $1,311)

Note: all costs exclude GST
Note: other projects include those in the previous financial year
*Note **1**: NPV = net present value of application costs, ongoing land sourcing and management fees assuming Base Scenario assumptions (figures in brackets are the Lower and Higher Scenarios).*
*Note **2**: 18% of HP fro timber harvested from Option 1 and Option 2, 15% of HP from timber produced from Option 3 and 20% of HP from timber produced from Option 4*

As discussed previously, investors pay no ongoing management or land sourcing fees during the term of the Project and instead pay these as a proportion of harvest proceeds. AAG believes the quantum of the deferred fees for all five Options, which are outlined in Table 3, are reasonable.

Investors who invest in Option 2 (and Option 5) are required to pay the cost of the pruning regime which will be carried out during the term of the Project. The fixed pruning fees payable are outlined in Table 3 and will be invoiced to investors in the years in which pruning takes place. Under FEA's current management plan, pruning will be carried out around year 4, 6 and 8.

As outlined in Table 3, insurance is optional for investors in the Project. FEA will, however, assist investors to source suitable insurance for their investment, with the cost of annual payments borne by the investor. We strongly recommend investors insure their Woodlots against fire and have included the estimated cost of doing so in our financial analysis for the Project.

It is important to note that, although investors are unlikely to pay any out of pocket fees or expenses under the current fee model for the Project, failure on the RE's behalf and subsequent appointment of another RE may result in additional fees being charged to investors, if a replacement RE is able to found and if the projects are continued.

As projects vary in fee structure and amounts charged, we use a present value (PV) of costs (@7%) per hectare per year to compare between projects. To be clear, the PV of costs is the sum of all future costs of the projects (excluding harvesting and production costs) discounted to a present day value at 7% discount rate.

Figure 1 compares the PV of costs for the four Options with the average PV of costs for hardwood woodchip, sawn hardwood, sawn softwood and high value timber projects offered in the previous 12 months.

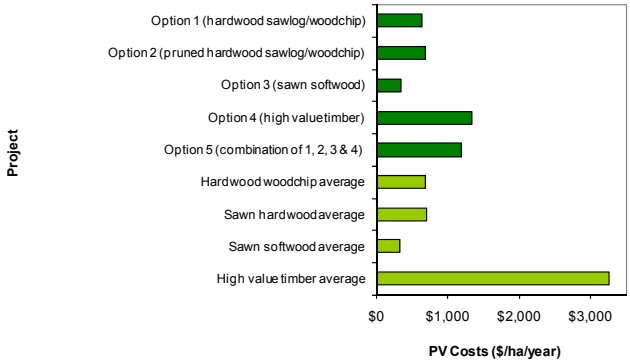


Figure 1 Chart comparing the PV of costs ($/ha/yr) for the Project and other relevant projects AAG has reviewed over the past 12 months

The PV of costs for the Option 1, 2 and 3 investments are in line with the average of the projects they are compared against, while the Option 4 investment offering is significantly less than the average of the high value timber projects (Figure 1). We do note that the high value timber calculation covers a broad range of high value timber projects and as such it is difficult to provide a direct comparison.

6.2 Is finance available?

AAG strongly suggests that investors seek the advice of their advisors prior to committing to finance.

Investors are able to finance their investment in the Project through FEA or UPS provided they meet certain criteria. There are several loan options available through UPS ranging from 3 year to 12 year P&I loan. There are also 7 year and 10 year options available with interest only periods. The indicative interest rate for loans provided by UPS is 11.25% (fixed rate). We would consider this to be high in the current interest rate environment. There is an application fee of $295 and 0.5% of the loan amount.

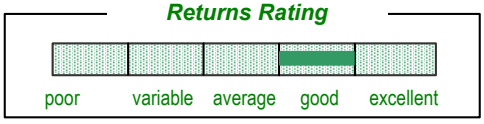
FEA has several loan options available including a 12-month interest free facility and 2, 3 & 5 year P&I loan terms (other terms may be available upon request) with a fixed interest rate of 10.75%.

6.3 What commissions are paid?

FEA Plantations has outlined in the PDS that it may pay commissions or brokerage up to 8% of the application monies to licensed financial advisers and financial planners. The RE may pay additional marketing expenses (up to 5% of application fees) associated with the promotion of the Project to financial advisers and financial planners.

Commissions in the agri-MIS space have traditionally ranged between 5-15%. Our view is that total commissions of 5-8% are more appropriate and in line with other financial products open for investment in Australia and as such, believe FEA's commissions to be high.

7 Returns – What will I get back?



7.1 What are the underlying assumptions to the returns?

AAG generally model three scenarios when analysing a project's returns expectations:

- The Base Case scenario is our best estimate of the returns;
- The Lower Case scenario is a lower scenario based on the lower end of the underlying assumptions. This scenario is not necessarily the lowest returns possible, but is at the lower (not lowest) end of the potential sensible range of returns estimates; and
- The Higher Case scenario is a higher scenario based on the higher end of the underlying assumptions. This scenario is not necessarily the highest returns possible, but is at the higher (not highest) end of the potential sensible range of returns estimates.

Actual returns may fall outside of these ranges. Those investors who are more risk averse should focus on the Lower Scenario in their investment decisions and conversely, those investors who have a greater appetite for risk should focus on the Higher Scenario. This is due to the fact that the Lower Scenario has a greater chance of being exceeded than the Higher Scenario.

Average investors should focus on the Base Scenario outcomes with an understanding of the potential for variation, generally within the range of the Lower and Higher outcomes, but should note that returns may fall outside of the range specified.

Table 4 outlines a summary of the underlying assumptions used in the financial analysis. It is not meant to be limiting or absolute in the values outlined and should be used with caution and read in conjunction with the entirety of this report. Investors and financial planners should refer to the cash flow calculator available from FEA when considering the returns. It can be used to calculate returns based on their own considered underlying assumptions.

Table 4 – Underlying Assumptions Used in the Financial Analysis

	Scenario		
	Lower Note 1	**Base** Note 2	**Higher** Note 3
Project Costs		Refer Section 7.1.1	
Inflation Rate	2.2%	2.5%	2.8%
Price Growth Escalation Factor	2.2%	2.5%	2.8%
Option 1 and Option 2			
Yield	20 m^3/ha/yr	25 m^3/ha/yr	30 m^3/ha/yr
% Sawlog at first thinning			
• Option 1 and Option 2	0%	5%	10%
% Sawlog at clearfall			
• Option 1	30%	45%	55%
• Option 2	40%	50%	60%
Stumpage Price			
• Option 1	Floor Price	$42 m^3	Base plus 10%
• Option 2	Floor Price	$45 m^3	Base plus 10%
Sawlog Premium			
• Option 1 & 2	20%	25%	30%
• Option 2 at clearfall	50%	100%	150%
Option 3			
Yield	Base less 10%	Refer Table 5	Base plus 10%
Stumpage Price	Base less 10%	Refer Table 6	Base plus 10%
Option 4			
Yield	Base less 20%	10 m^3/ha/yr	Base plus 10%
Stumpage Price			
• Thinning	Base less 20%	$379 m^3	Base plus 20%
• Clearfall	Base less 20%	$223 m^3	Base plus 20%

*Note **1** – Towards the lower end of the potential range (not necessarily the lowest)*
*Note **2** – For use in quoting a base case assumption (not necessarily exactly between the Lower and Higher figures).*
*Note **3** – Towards the higher end of the potential range (not necessarily the highest)*

7.1.1 Costs

Please refer to Section 6.1.

Although insurance is optional, AAG has assumed that investors will obtain insurance during the term of their investment. Our insurance assumptions are based on 0.5% of the total crop value every year.

7.1.2 Yield and Quality

Hardwood component

FEA intends to establish the majority of Eucalypt hardwood plantations in the northern New South Wales region, with the balance to be established in Tasmania.

FEA has assumed that plantations in Option 1 and Option 2 will provide total yields of 355 m^3/ha and 430 m^3/ha over the term of the term of the respective rotation lengths, including 95 m^3/ha produced at first thinning in year 10, with the balance harvested at clearfall. This represents a growth rate of approximately 27 m^3/ha/year for both Project options.

When looking at yield estimates, AAG believes it is important to look at the past performance of the company. Results from older stands of plantations under FEA management in Tasmania show yields and growth rates to be generally in line with those targeted by the company (please refer to Section 3 in the Part B Track Record Review for more information).

A large proportion of plantations that will be included in the Project will be located in northern New South Wales and southeast Queensland, where there still remains many unknowns regarding the best silvicultural approach to establishing and managing plantations, particularly in relation to the selection of suitable species and weed and pest control. FEA and Forestry New South Wales are currently in the process of developing a growth curve model for each species in the region.

AAG visited this region in November 2008 with FEA and was generally pleased with the performance of the plantations, the oldest of which were eight years of age. Although pleased with the progress of these plantations, they did not provide any conclusive evidence to us that growth rates of 27 m^3/ha/year would be achievable on a consistent basis in the region.

Given these unknowns of the plantation industry in northern New South Wales and the fact that a large proportion of plantation will be grown in this region, AAG has been more conservative and used a Base Scenario growth rate of 25 m^3/ha/year. For the Lower and Higher Scenarios, we have assumed growth rates of 20 m^3/ha/year and 30 m^3/ha/year respectively.

The ratio of sawlog to pulp logs to be recovered at harvest will impact on investors' returns. FEA's assumptions for recovery are largely based upon simulation data undertaken by the group. These recovery estimates are higher than the group has previously assumed. AAG's estimates of the sawlog and pulp logs are outlined in Table 4 and are generally slightly lower than the estimates used by the Independent Forester. Given that FEA has yet to achieve their estimated recoveries on any large scale, AAG believes it prudent to be conservative.

Softwood component

The management of *Pinus radiata* is well understood and documented with the species having been grown widely in plantations throughout southern Australia since the 1960's.

FEA has estimated a growth rate of 22 m^3/ha/year in their internal model for Option 3, a figure that is supported by the Independent Forester. FEA believes that first thinning will produce mainly pulp logs and some small unpruned sawlogs, with the second thinning producing mainly small and medium sized sawlogs and some pulp logs. Clearfall harvest is expected to produce mainly medium and large sized sawlogs and a small amount of pulp logs. The proportion of pulpwood and sawlogs that FEA expects to be produced at each harvest based on the presumed growth rate is outlined in the Independent Forester's report in the PDS.

Table 5 –Pine yields used in the financial analysis

	Age 13	Age 18	Age 25
Pulpwood (m^3/ha)	66	40	35
Sawlog (m^3/ha) <24 cm	32	22	55
Sawlog (m^3/ha) 24 to <32 cm	-	34	99
Sawlog (m^3/ha) 32 to <45 cm	-	12	89
Sawlog (m^3/ha) >45 cm	-	-	67

Note: Based on MAI of 22.0 m^3/ha/year

Given that the plantations will be located in Tasmania which has a good history of softwood production, AAG believes that a growth rate of 22 m^3/ha/year is attainable and used this in our Base Scenario. For the Lower and Higher Scenarios we have used the same proportions but with increments of ±10% on overall yield.

African mahogany component

African mahogany is native to sub-Saharan Africa where it grows in a range of environments. African mahogany was first grown in Darwin in the 1950's and in more recent times has been trialed across various sites in Queensland, Western Australia and the Northern Territory. As pointed out previously, there is approximately 4,000 hectares of the species grown in the Northern Territory, most of which has only recently been established.

Given the limited history of growing African mahogany in plantations in Australia, there is very limited data to use as a guide to estimate growth rates for the timber. Growth rate trials undertaken by the Northern Territory Government on trees between 4 and 10 years of age indicated that growth rate yields could vary between 7-13 m^3/ha/year. Given the small number of trees involved in the trial and the silviculture differences between the management plans of the trial plantations against the project plantations, it is difficult to draw any conclusions as to possible yields for Option 4. What is clear from the trial work undertaken is the fact that soil type, genetics and management strategies will significantly influence the potential yields of the species.

In their internal financial model for the Project, FEA has assumed a merchantable yield of 198 m^3/ha over the term of the 18 year rotation (equivalent to 11.0 m^3/ha/year), a figure supported by the Independent Forester. Given the fact that there is no conclusive evidence available as to the likely yields (both volumetric and qualitative) achievable from the species, we have used a more conservative figure of 10.0 m^3/ha/year in our Base Scenario and -20% for the Lower Scenario. For the Higher Scenario we have used +10%.

7.1.3 Price

Hardwood component

FEA has advised AAG that the hardwood timber harvested from the Project will be sold on a stumpage basis. The figure used by FEA in their internal model ($42 m^3 for thinning and $45 m^3 for final harvest) is based upon several factors including the current Free On Board (FOB) native and plantation blend woodchip price being achieved from Tasmania, and current harvesting, transport and chipping costs the company is paying for existing operations in this region. Harvesting costs are higher for thinning operations compared to those at final harvest due to the complexity and time cost per volume of timber harvested.

The harvesting, transport and chipping costs will be largely influenced by the haulage distance of the plantations. FEA has assumed an average carting distance of 175 km in its stumpage calculator. Although AAG believes this to be realistic for plantations established in Tasmania, FEA has yet to decide on a location for a processing site in northern New South Wales and Queensland. Our understanding is that FEA will construct a processing facility in close proximity to its already established plantations in northern New South Wales.

We have accepted FEA's stumpage price estimates proposed by FEA for pulpwood and have used them as our Base Scenario with +10% as out Higher Scenario. For the Lower Scenario, we have used the "Floor Price" as described in the PDS. For the thinning operations, this is calculated as 35% of the FOB Bell Bay Price, where the FOB Bell Bay Price is the average price of hardwood plantation woodchip exports at FEA's Bell Bay sawmill, multiplied by 48% (being the estimated fraction of dry fibre). The calculation for the clearfall harvest timber is 39% of the FOB Bell Bay Price.

Given the Independent Foresters estimate for current prices out of Bell Bay ($198.5/bdmt), the 'floor price' for pulpwood at thinning and clearfall harvest would be $33.35/bdmt and $37.16/bdmt respectively. We have used these figures for our Lower Scenario.

Investors in Option 1 and Option 2 are likely to receive a premium for the sawlog material harvested from their investment.

The Independent Forester believes that unpruned sawlogs are currently receiving a premium of between 20 and 30% over timber harvested for pulpwood purposes. Based on evidence provided to AAG, we believe these estimates conceivable and have used the midpoint (25%) as our Base Scenario and the upper end of the range for the Higher Scenario. For the Lower Scenario, we have used the "Floor Price" which is calculated as 120% of the Pulpwood floor price. This works out to be $40.02/bdmt for unpruned sawlogs harvested from thinning and $44.59/bdmt for those harvested at clearfall.

Because of the thinning program implemented by FEA, it is likely that a proportion of timber harvested at clearfall from the Option 2 investment will be clearwood, suitable for the veneer market. The Independent Forester states that pruned (clear) hardwood sawlogs will achieve at least double that of lower priced unpruned sawlogs. Although, FEA's EcoAsh® branded timber will assist investors, AAG agrees with the Independent Forester that not all sawlogs produced from the Option 2 clearfall harvest will meet clearwood specifications. For the Base and Higher Scenarios, we have assumed that sawlogs harvested from the Option 2 clearfall harvest will achieve a price premium double and 150% of their respective pulpwood prices. The Lower Scenario is based on the 'Floor Price', which is calculated as 200% of the Pulpwood Floor Price ($74.32/bdmt).

Softwood component

Pricing data compiled by KPMG in conjunction with URS Forestry and released biannually in the Australian Pine Log Price Index (APLPI) forms the basis of AAG's pricing assumptions for the softwood resource harvested from Option 3. The APLPI has provided data on the weighted average prices for domestic sales of sawlogs of various sizes from eastern Australia in the past 11 years. It is the average price for each of these log class over the 11 year period (outlined in Table 6) which has been used for our Base Scenario assumptions. For the Lower and Higher Scenarios, we used ±10% from the Base Scenario respectively.

Table 6 – Pine prices used in the financial analysis	
	Stumpage Price
Pulpwood (m^3/ha)	\$9.93 m^3
Sawlog (m^3/ha) <24 cm	\$34.15 m^3
Sawlog (m^3/ha) 24 to <32 cm	\$46.42 m^3
Sawlog (m^3/ha) 32 to <45 cm	\$64.66 m^3
Sawlog (m^3/ha) >45 cm	\$76.54 m^3

African mahogany component

The African mahogany timber harvested from native forests is highly valued because of its figurative grain and its rich reddish-brown colour. It has a wide range of uses including quality furniture and cabinetwork, joinery, fixtures, flooring, boat building, construction and veneer. The plantation mahogany grown from the Project will have smaller diameter logs and lower quality features than the native grown resource and for this reason, will likely trade at a discount.

No African mahogany has been sold on any notable scale from Australian plantations previously. As such, it is very difficult to predict the price of the timber when the Australian grown source comes on line.

The Independent Market report included in the PDS has provided stumpage estimates of \$446 m^3 at clearfall and \$223 m^3 at thinning, with these figures based upon an assumed wholesale value of African mahogany of \$3,000 m^3, assumed sawn recovery rates of 45% for clearfall and 25% for thinning, as well as harvesting, transport, processing and marketing cost estimates based on those for other high value timbers. FEA has used these stumpage estimates in the financial model for the Project option.

The wholesale value assumed by the Independent Marketer (\$3,000 m^3) has been based on figures sourced from the report, "African Mahogany Grown in Australia – Wood quality and potential uses," which was authored by the Rural Industries Research and Development Corporation (RIRDC) and released to the public in June 2007. We are supportive of using this figure as a basis for our pricing estimate, but it is the only credible source of information and as such should be used with caution.

Whilst AAG accepts the unit costs assumptions that the Independent Market report and FEA have assumed for harvest and transport and the processing and assumed profit margin of the wholesaler, we are less comfortable with the estimates relating to recovery. The Independent Market report included in the PDS uses figures (45% for clearfall and 25% for thinning) based on the RIRDC study and FEA simulated sawlog processing. The RIRDC study was undertaken on 42 trees aged 32 years. These trees were the best performing at the trial site, which itself was largely unmanaged i.e. were not thinned or pruned. Harvesting of these trees using standard technology showed that recoveries of around 39% was achievable. FEA believes that simulated cutting of these 'trial' logs using more modern harvesting technology provides recoveries closer to 50%.

Given that the trees in this Project will be harvested on a much shorter rotation (19 years), the diameter of the logs from plantations this age could be assumed to be smaller than those from the study on the 32 year old trees. On the other hand, silvicultural improvements that will be implemented for this Project, such as thinning and form pruning, will provide for improved tree size and form, whilst the use of modern technology will provide for greater harvesting efficiencies and as a result, greater recoveries.

Based on the above observations, AAG believes that a recovery rate of 39% is appropriate for clearfall for this component of the Project. Whilst this estimate is lower than that assumed by FEA, we believe it prudent to be conservative, given the very limited knowledge of the African mahogany industry in Australia and the unavailability of pricing information. AAG has assumed the same recoveries at thinning as those assumed by FEA.

Using the wholesale figure of \$3,000 m^3 and the processing and transport costs used by FEA provides a stumpage price of \$379 m^3 at clearfall and \$223 m^3 at thinning, when assuming our own sawn recovery rates. We have used these figures for the Base Scenario in our financial analysis. For the Lower and Higher Scenarios, we have assumed ±20% from the Base respectively.

7.1.4 Inflation Rate

The average rate for inflation for the past 10 years was 2.5%, with the inflation rate measured for the year ending December 2008 running at 3.7%. The Reserve Bank of Australia (RBA) has a mandated target rate for inflation of between 2% and 3%. Using the mandated target rate as a guide, we have used the midpoint (2.5%) as our Base Scenario and 2.2% and 2.8% as our Lower and Higher Scenarios respectively.

7.1.5 Price Growth Escalation Factor

Hardwood woodchip component

Australian woodchip prices have generally increased in line with inflation during the past six years. Although the woodchip price increased by 10% in 2008, it remained unchanged in 2009. We do note, however, that Australian woodchip export prices generally declined slightly in real terms for a period prior to 2000. Given the recent trend of falling commodity prices as the global economy continues to stall, AAG does not expect the real price of hardwood woodchips to significantly increase in the short term.

All things taken into consideration, AAG believes that given the long term nature of the Project, the assumption that hardwood woodchip prices will move in line with inflation is the most applicable. We have used this assumption in our analysis.

Sawn hardwood component

Although restrictions in the supply of sawn hardwood logs from native forests will assist with price growth for the sawlogs harvested from Option 1 and 2, there is limited public price information for sales of the plantation grown resource. Given the limited information available, we have assumed that prices will move in line with inflation.

Pine component

Research suggests that real softwood sawlog stumpage prices have declined since the late 1990's, but have flattened out since 2003. Real softwood pulp log stumpage prices have declined quite significantly over the last decade. AAG believe maintenance of real price is a reasonable prospect into the future given the recent investment in processing infrastructure in Tasmania by FEA and other forestry companies on the mainland. Our assumption in our analysis is that softwood sawlog and pulp log prices will move in line with inflation.

African mahogany component

Although prices for native grown African mahogany logs have increased above inflation rates over the past decade, there is limited information available for the plantation grown product. Given this, it is unrealistic for AAG to predict price growth for the timber going forward. AAG has assumed that African mahogany prices will increase in line with CPI under all scenarios.

7.1.6 Other assumptions

The 18-month forestry rule allows FEA to establish the Project plantations throughout the year following investment, and as a result, this financial analysis assumes that the Project will run for a year longer than the rotation length of the timber crops which form the basis of the investment offerings.

7.2 What are the estimated returns?

The potential cash flows for each Option under the Base Scenario (on a per Woodlot basis) are outlined in the charts below.

Investors in Option 1 are expected to receive income from a thinning operation in project year 10 and clearfall harvest four years later (Figure 2). Except for the cost of annual insurance payments, evident from the declining net cash flows, investors pay no ongoing costs for the duration of the Project.

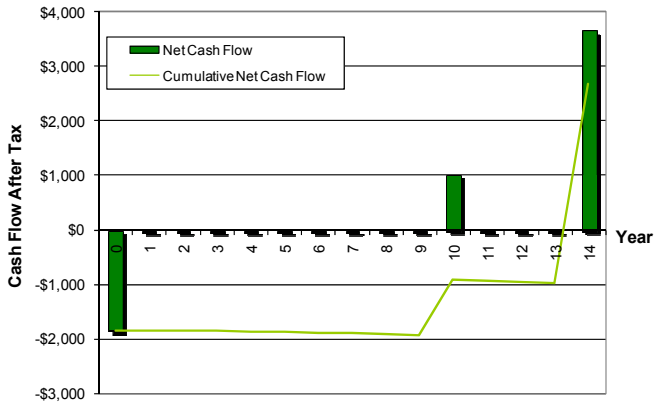


Figure 2 – Chart showing the net cash flow after tax and cumulative net cash flow after tax (@46.5%) for Option 1 under the Base Scenario

Option 2 investors will also receive income from two harvest operations, although these will occur in project year 10 (thinning) and project year 17 (clearfall) (Figure 3). The pruning costs which investors are expected to pay FEA in project year 4, 6 and 8 and insurance costs which are payable under our assumptions are the cause for declining cash flow during the term of the Project.

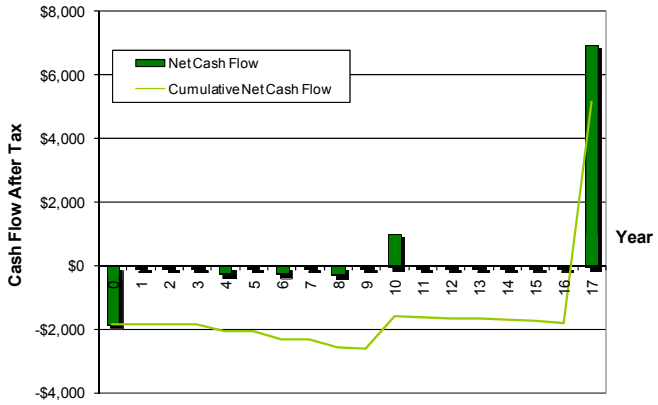


Figure 3 – Chart showing the net cash flow after tax and cumulative net cash flow after tax (@46.5%) for Option 2 under the Base Scenario

Option 3 is a longer term investment, with investors expected to receive income from three harvesting operations over the 26 year term (Figure 4). Like Option 1, investors in Option 3 don't pay any ongoing costs for the term of the investment except for insurance.

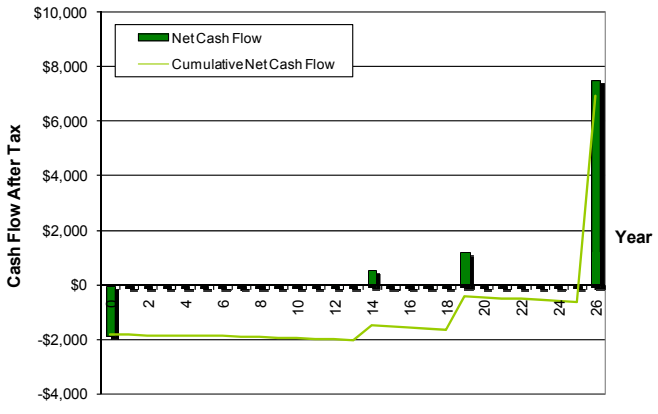


Figure 4 – Chart showing the net cash flow after tax and cumulative net cash flow after tax (@46.5%) for Option 3 under the Base Scenario

As outlined in Figure 5, investors can expect to receive income from two harvest operations during the 19 year term of Option 4, the first of which is expected to be received in year 12.

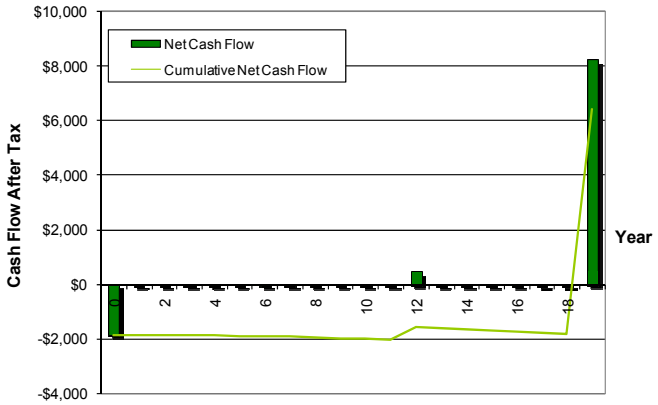


Figure 5 – Chart showing the net cash flow after tax and cumulative net cash flow after tax (@46.5%) for Option 4 under the Base Scenario

Option 5 is a diversified offering in that investors will receive income several times during the term of the investment from four different crop types (Figure 6). The only out of pocket expenses (other than annual insurance payments) that will be paid during the term of the Project are pruning costs in project year 4, 6 and 8 respective to the Option 2 woodlot.

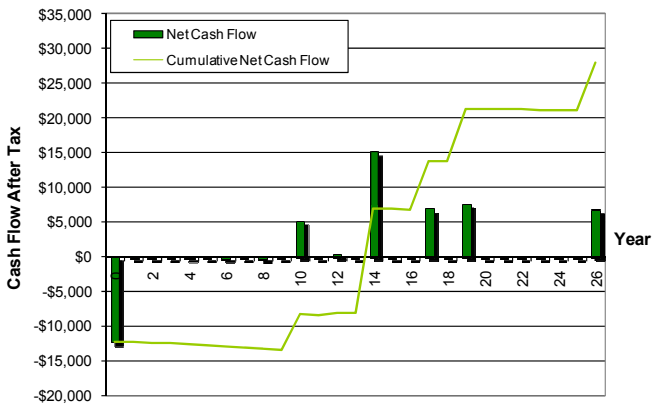


Figure 6 – Chart showing the net cash flow after tax and cumulative net cash flow after tax (@46.5%) for Option 5 under the Base Scenario

The potential returns for investors investing in the five Options are outlined in Table 7.

Table 7 – Rates of Return for the Project		
	AAG Estimated Returns (IRR after tax @ 46.5%) Notes 1, 2, 3	
	Cash	**12-month interest free loan**
Option 1	7.0% (3.1% – 9.9%)	7.5% (2.8% – 10.9%)
Option 2	7.8% (3.6% – 11.2%)	8.2% (3.5% – 12.0%)
Option 3	6.5% (5.3% – 7.6%)	7.1% (5.8% – 8.4%)
Option 4	8.2% (5.4% – 10.5%)	9.3% (6.1% – 11.5%)
Option 5	7.5% (4.2% – 10.1%)	8.7% (4.8% – 11.8%)

*Note **1** – As a standard across all projects, AAG Adjusted Returns assumes all GST is rebated and all tax is refunded in the year the expense is paid.*
*Note **2** – AAG Estimated Returns uses the ranges and variables as outlined in the Section 3.1.*
*Note **3** – figures in brackets are Lower and Higher Scenarios.*

The estimated base level returns for Options 1, 2, 3 and 5 are acceptable for projects of their type (Table 7). The Base level returns for the Option 4 investment are considered low for an investment of its type and risk level.

AAG has included a graph comparing the returns for the five Options with the average of similar MIS projects released in the last 12 months (Figure 7). We note that this graph should not be taken into isolation when comparing between projects.

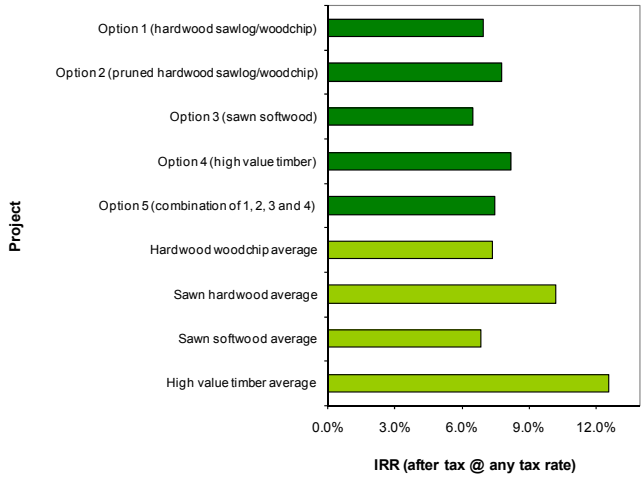


Figure 7 – Chart comparing IRR for the options for this Project and the average of other relevant projects released in past 12 months

Figure 7 shows the estimated returns for Options 1, 2 and 3 to be in line or slightly lower than the average of the MIS projects they are compared against. Returns from Option 4 are significantly less than the high value timber projects it is compared against.

7.3 What is the sensitivity of these returns?

Figure 8 outlines the sensitivity of the five investment options to changes in yield OR price (under the Base Scenario). As the elastic nature of the slopes of the lines illustrates, all options are very robust to changes to the major variables. Option 3 is the least sensitive due to the long-term nature of this Option.

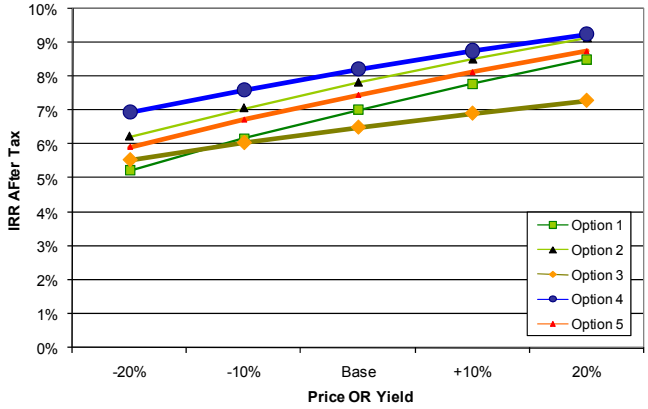


Figure 8 – Chart showing the impact of changes in yield and price on the Base Scenario returns at 46.5% tax rate.

The robustness of each Project option is again highlighted by the threshold analysis outlined in Table 8 (for Option 1, 2, 3 and 4) and Table 9 (for Option 5). For example, the most sensitive of the Project options (Option 1), requires a 36% reduction in price AND yield together to force a breakeven position under the Base Scenario.

Table 8 – Financial Analysis and Sensitivities for Options 1, 2, 3 and 4 (Cash Basis)				
	Option 1	**Option 2**	**Option 3**	**Option 4**
Benefit Cost Ratio @ 7% Note 1	1.00 (0.67 – 1.30)	1.09 (0.68 – 1.50)	0.92 (0.74 – 1.11)	1.16 (0.89 – 1.44)
Breakeven Point (yrs)	14 (14 – 14)	17 (17 – 17)	26 (26 – 26)	19 (19 – 19)
Threshold analysis Note 2 – Price OR Yield	59% (33% – 72%)	67% (40% – 80%)	78% (71% – 83%)	78% (63% – 84%)
Threshold analysis Note 2 – Price & Yield	36% (18% – 47%)	43% (23% – 55%)	54% (47% – 59%)	53% (39% – 60%)

*Note **1** – Excluding any shares, options. Up front cash and before tax basis.*
*Note **2** – Threshold analysis is the % reduction in price or yield where break even occurs (i.e. when IRR =0%).*
*Note **3** – figures in brackets are Lower and Higher Scenarios.*

A benefit cost ratio (BCR) is the ratio of the value of benefits to the value of costs (discounted at 7%). A BCR of less than a value of one means that the costs of the project over time outweigh the benefits paid while conversely a BCR value of greater than one means that benefits outweigh the costs after accounting for the time value of money. Larger positive BCR's mean that the benefits significantly outweigh the costs. A BCR of 1.0 equates to a before tax return of 7%.

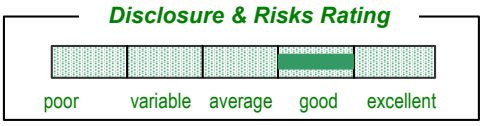
The BCR's for all Options except for Option 4 are in line with those for other similar offerings on the MIS market (Table 8 and Table 9). The BCR for Option 4 is low for an investment offering of its type.

Table 9 – Financial Analysis and Sensitivities for Option 5 (Cash Basis)			
	Lower	**Base**	**Higher**
Benefit Cost Ratio @ 7% Note 1	0.71	1.05	1.37
Breakeven Point (yrs)	17	14	14
Threshold analysis Note 2 –Price OR Yield	49%	68%	78%
Threshold analysis Note 2 – Pine Price AND Yield	29%	44%	53%

*Note **1** – Excluding any shares, options. Up front cash and before tax basis.*
*Note **2** – Threshold analysis is the % reduction in price or yield where break even occurs (i.e. when IRR =0%).*

The breakeven point for investors in Options 1, 2, 3 and 4 coincides with the clearfall harvest of each (Table 8). Investors in Option 5 can expect to be cash flow positive earlier than the final year, with the breakeven point for the Base and Higher Scenarios being year 14 and Lower Scenario being year 17 (Table 9).

8 Disclosure and Risks



8.1 Disclosure

FEA has a compliance committee in place which oversees FEA's obligations under the Constitution and the Corporations Act for its projects under management. The compliance committee meets quarterly and is currently comprised of three members including external members Ross Waining and Scott Dawkins and internal member Kerry Duncan.

Ross Waining is a retired forester who commenced employment in the industry in 1962 and worked in several senior positions including that of General Manager of Boral Timber Tasmania Ltd. Ross's previous Board member experience includes Chairman of the Forest Practices Advisory Council and member of the Tasmanian Forest Practices Board.

Scott Dawkins is a Chartered Accountant with in excess of 30 years experience in the accountancy field. Scott currently owns his own private practice (Scott Dawkins & Associates) in Launceston, Tasmania. Scott is experienced in public accounting and was previously Chairman of the Cultural Industries Council which contributes to the Tasmanian Governments strategies for industry.

Internal member Kerry Duncan currently resides on the Board of FEA Plantations as a non-executive Director. Kerry is a highly experienced corporate lawyer with a career spanning nearly 40 years, 22 years of which were spent as Partner with Minter Ellison. Kerry retired from the group in 2002 and, in addition to his roles with FEA currently acts as a Consultant to the Director of Public Transport in Victoria.

8.2 Reporting to Investors

AAG believes regular communication between MIS companies and their investors is very important, especially being proactive in conveying accurate and unbiased information relating to the performance of the investment.

FEA will provide investors an Annual Report each year, summarising the progress of the plantations and commenting on the current and future market for the products that are likely to be harvested from the project. Each Annual Report will also include a statement from the Independent Forester. AAG has been provided examples of the Annual Reports provided to investors in past projects and was comfortable with the content and information provided in them.

Investors will also be kept up-to-date with Project developments through such means as regular newsletters and access to the company's website.

8.3 Risks

8.3.1 Agricultural Risks

The primary agricultural risks associated with the plantations include risks that may impact on yield and thus returns to investors. In relation to plantation forestry, climatic and climatic associated risks such as fire, drought, frost, hail and wind are considered the main physical risks. Apart from appropriate site selection and the employment of precaution practices such as fire breaks, these risks are largely out of the control of the RE and on-ground management team.

Because of the geographic diversification of properties across Tasmania, New South Wales and Queensland, the risk of any one physical event affecting returns is somewhat reduced for investors in Option 1 and Option 2. Investors in Option 3 and Option 4 are offered a degree of diversification due to plantings being made over a number of different blocks.

Plantations in New South Wales, Queensland and the Northern Territory have not been grown to full term yet. Hence, there are unknowns surrounding the actual yields that can be achieved. Yields may vary significantly from those discussed in this report and, hence, returns may also be materially different. This is particularly so for African mahogany where the industry is very new. These are substantial and material unknowns with respect to the achievable yields.

Risks such as weeds, pests, disease and nutrient deficiency also have the ability to impact on plantations yields. These risks can largely be mitigated by the on-ground management team implementing best forestry management practices. In the northern New South Wales and southeast Queensland regions where a large proportion of Option 1 and Option 2 plantations will be located and in the Northern Territory where all of Option 4 plantations will be located, weeds will provide significant competition to the respective tree crops. There is no doubt that, if left uncontrolled, competition from weeds can seriously damage the prospects of success for plantations.

It is evident from AAG research that years of dry conditions has impacted on predicted growth rates for many plantations established in the past five years across southern Australia. Despite FEA been largely unaffected to date in Tasmania and the mainland region, there is a risk that extended periods of low and variable rainfall will impact on future growth rates of plantations included in this Project, impacting on predicted yields and returns to investors at harvest.

The stocking guarantee that FEA has in place for the Project is expected to reduce the establishment risk caused by any below average rainfall or impacts from weed competition that may be experienced (discussed in more detail in Section 2.2).

Due to the time span of the Project, AAG considers fire to be a large risk to investors in all options. The plantations comprising the Option 4 investment will be located in areas identified as a cyclone risk by the Bureau of Meteorology, albeit inland, where cyclonic winds generally moderate. All the same, investors looking at investing in this investment offering must appreciate the enormity of a cyclonic event occurring, albeit a low risk.

A specific risk to investors in Option 4 is the fact that FEA has had no previous experience growing African mahogany. Because of this, AAG believes there is a significant risk that yields and quality of timber produced from this species will be lower than those predicted. This is reflected by our assumptions for the financial analysis and subsequently the overall rating for this investment offering.

8.3.2 Management Risks

Management risk includes the loss of key entities or operational staff which may impact on the performance of the Project.

FEA has a long history of involvement in the management of conventional timber species in Tasmania and is the largest forestry operator in northern New South Wales and southeast Queensland. As a consequence, AAG is confident in the ability of the company to replace or source suitably qualified staff should they be required.

Given the limited knowledge of growing and establishing African mahogany in plantations in Australia, AAG considers the risk of losing key operational staff much higher for investors in Option 4 than for investors in other components of the Project. This risk will decrease over time as FEA increases the scale of its plantations and the number of employees as a consequence, although this is dependent on FEA continuing to raise subscriptions for this investment option.

Although FEA has been in a relatively strong financial position over the past few years, smaller raisings in 2009 in line with the general market along with higher financing costs have dented FEA's financial position somewhat. Given the long term nature of the Project, the long term viability of the company can never be guaranteed. The impact of FEA becoming insolvent would have significant ramifications for investors in the Project. We have discussed FEA's financials in more detail in the Part B Track Record Review.

8.3.3 External Risks

For any forestry project, the main external risk is the failure to achieve the estimated price for the harvested timber. As discussed previously, the price for timber produced from the Project will be largely influenced by the supply and demand of the products at the time of sale. Given the length of time between now and harvest, particularly for Option 2, 3 and 4 investors (and as a result, those in Option 5), it is difficult to predict the dynamics of the timber resource at the time of harvest which presents some risk to investors.

Whilst hardwood and softwood woodchip prices in Australia have climbed substantially during the past 12 months – reflective of increased demand pressures in Japan – the mid to long term future is likely to see a significant increase in the volume of plantation woodchip harvested from Australia. How the market reacts to this supply increase is unknown, given the potential for decreasing supply from South Africa in particular and the impacts of new pulp mills in South America. Nevertheless, AAG still sees supply as a real risk to investors in the Option 1, 2, 3 and 5 investment offerings.

As the softwood industry is primarily dependent upon the domestic market, factors such as the performance of the housing market, increased competition from import countries and the implementation of new technologies could substantially alter the future supply and demand dynamics of the softwood industry and subsequent price paid to investors in the Option 3 offering. Options 1 and 2 are also exposed to the building market.

Given the unknowns associated with growing the species in Australia, AAG believes the risk of not achieving the estimated price is greatest for the African mahogany component of the Project (Option 4). The primary marketing risk for this species is the unknowns surrounding the quality of timber which can be produced and subsequent risk that prices will be discounted as a result. This risk should not be underestimated by investors looking to invest in this investment option.

For those products which will be sold on the export market (most likely pulpwood and African mahogany timber), an appreciating Australian currency at the time of sale will have a major bearing on the price received, making the respective timber products less competitive on the international market.

There is potential for conflict of interest where the seller of investors timber is a subsidiary of the purchaser. We have discussed this in Section 5.

The deferred land sourcing and management fee structure means that there is a "continuity risk" if FEA departs the Project. Some of the land on which the Project will be developed is owned by 3rd parties to whom FEA is paying an annual lease payment. . In the event of an administrator appointed , the administrator has the power to sell the trees and pay any outstanding costs associated with the project, with the balance of monies available for distribution to growers

A similar situation may occur with the management fee. As discussed in Section 6.1, investors are unlikely to pay any out of pocket fees or expenses under the current fee model for the Project. However, failure on the RE's behalf and subsequent appointment of another RE may result in additional fees being charged to investors.

9 Taxation

9.1 Is there a product ruling?

FEA has received Product Rulings for each of the five options:

- Option 1 – PR 2009/43
- Option 2 – PR 2009/44;
- Option 3 – PR 2009/45;
- Option 4 – PR 2009/46; and
- Option 5 – PR 2009/47.

Each of these Product Rulings outlines that 100% of the Application Fees for the respective Options are tax deductible in the initial year.

9.2 What is a product ruling?

A product ruling is a binding statement by the Australian Taxation Office (ATO) regarding deductions of fees available under the current Australian Taxation Laws for an investment in a particular project. If there are material changes made to the expenditure, timing and establishment of a particular project, then that particular product ruling ceases to have any effect.

The product ruling system provides certainty to potential investors in the MIS industry confirming the taxation benefits for a particular project, where the scheme manager complies with the commitments made.

Australian Agribusiness Group Financial Services Guide

We are required to give this FSG to retail clients under the requirements of our Australian Financial Services License. It is an important document and provides you with information about Australian Agribusiness Group (AAG) to help you decide whether to use the financial services that we provide. This FSG explains the services we can offer to you and the types of products we offer. It also explains how we are remunerated in relation to those services and includes information on our internal and external complaints handling procedures.

You may also receive other documents in relation to the financial products which we may provide advice on, from other parties.

A Statement of Advice (SOA) describes the type of advice being given, and must be provided where an adviser is giving personal advice. As detailed below, Beckmont does not provide personal advice and therefore will not provide an SOA.

A Product Disclosure Statement (PDS) is a document which contains information about a particular financial product which will assist you in making an informed decision about that product. However, as we do not issue, sell, or offer to issue or sell financial products, or give personal advice, we are not required to provide a PDS.

This FSG is dated 28 February 2006.

1. Who are we?

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Beckmont does not provide personal financial advice. As such our employees and representatives will not be taking into account your personal objectives, financial situation and needs. If you require personal financial product advice, please consult a financial planner.

3. How can you do business with us?

You can register for access to our research and information on primary production managed investment schemes via our website (www.ausagrigroup.com.au). Information is accessed via that site by a personal login name and password.

4. How are we remunerated for the services we provide?

Wholesale clients do not currently pay anything for access to our services.

Retail clients pay a maximum $69 for access to each project report.

5. What commissions, fees or other benefits are received?

Beckmont is paid a standard and fixed fee by project managers (i.e. the product providers of agribusiness managed investment schemes) of $29,920 (inc. GST) for the first project for each project manager and then $17,325 per project (inc. GST) thereafter for that project manager. Any associated travel, accommodation and reimbursements are additional to this charge.

Employees of Beckmont Pty Ltd do not receive particular payments or commissions in respect of the authorised services and are employed on a salary basis in respect of these services.

You may receive advice from financial planners and dealer groups to whom we provide research. These financial planners and dealer groups do not receive remuneration from us, nor we from them.

6. How do we safeguard your private information?

Your privacy is important to us. In general we may collect information about you to manage your access to our website. You can access our Privacy Policy at our website (www.ausagrigroup.com.au).

7. What should you do if you have a complaint?

Please contact our Compliance Officer on (03) 9602-6500.

Our staff will review the situation and if possible resolve it immediately. If the matter has not been resolved to your satisfaction, please contact the Managing Director by writing to:

The Managing Director
Australian Agribusiness Group
Level 5, 406 Collins St
Melbourne VIC 3000

If, after giving us the opportunity to resolve your complaint, you feel we have not resolved it satisfactorily, you may be able to lodge a complaint with:

Financial Industry Complaints Service (FICS)
PO Box 579, Collins St West
Melbourne VIC 8007
or call them on 1300 780 808

8. You can contact us by

- phone on (03) 9602-6500
- fax on (03) 9642-8824
- visiting www.ausagrigroup.com.au
- writing to us at Level 5, 406 Collins St
  Melbourne VIC 3000
- email on info@ausagrigroup.com.au

2008/09

AUSTRALIAN AGRIBUSINESS GROUP

FEA PLANTATIONS PROJECT 2009

Retail Investment Research – May 2009 (August Update)

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