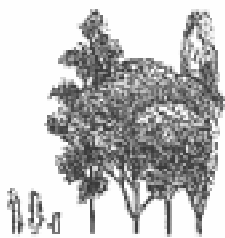


Independent Forestry Report

AFFORESTATION PTY LTD
Charles Peaty (s. 200)



Agri-Forestry / Forest Farming Management / Consulting, Western Australia
Environmental Studies, Analysis, Systems Planning, Assessment

11 FREMANTLE AVENUE
170 KIRI PARK ROAD
SOUTH FREMANTLE, WA 6150
Ph: (08) 9411 4411
Fax: (08) 9411 2752
e: peaty@afforestation.com.au
www.afforestation.com.au

March 1st 2004

The Board of Directors

Environmental Forest Farms Management Ltd
Ground Floor, 105 St George's Terrace
PERTH WA 6000

Dear Sirs,

INTRODUCTION

This Report has been prepared for inclusion in a Product Disclosure Statement ("PDS") to be issued by Environmental Forest Farms Management Ltd. It has been prepared by Charles Peaty ("the consultant") a qualified and independent forester. He has had over 50 years experience in forest management both in Asia, Australia, USA and UK.

The intention of this Report is to provide Prospective investors with an independent assessment of E.F.F Ltd ("the Parent Company") and the Kiri Park Project 2004 ("the Project"). Terms used in this Project have the same meaning as defined terms in the PDS.

Environmental Forest Farms Management Ltd ("the Responsible Entity") will establish a fourth plantation of Paulownia trees near Regan's Ford, Western Australia. This Report provides background information on the region, the proposed silvicultural regimes to be used for the Project, and risks.

THE PARENT COMPANY

The Parent Company has over seven years experience in growing Paulownia in Western Australia. Two early privately funded plantations, in the northern suburbs of Perth, were used to develop management techniques for Western Australian conditions. Superior trees from the plantation at Nowergup have been cloned and are growing strongly in Kiri Park. The Kiri Park Project 2004 is widely regarded as a model Paulownia plantation in WA. This is because the Parent Company has:

- ❖ selected land with high solar radiation, and good soil and water quality,
- ❖ developed and implemented advanced irrigation and Fertigation systems based on tree requirements for optimum growth,
- ❖ adopted best practice silviculture for weed/pest control and canopy management,
- ❖ planted clonal lines from plus trees growing in the same climate zone, and
- ❖ has active research programs supporting its genetics and Fertigation operations.

Further, the Holding Company has developed its own tissue culturing facility, owns its own superior Paulownia clones, and is actively researching all aspects of Paulownia timber growth and utilisation.

THE PROPOSAL

Up to 126 hectare of Kiri Park at Regan's Ford, Shire of Gingin, Western Australia, is available for the Project. The suitability of the land for growing Paulownia has been demonstrated from planting established on adjacent land since 1999. The property currently has in excess of 160,000 trees already planted and established from previous Projects. The Proposal provides for the establishment of 700 Woodlots each comprising 100 trees. The trees will be planted in Spring 2004 and harvested in accordance with the Proposed Harvest plan detailed late in this Report.

ENVIRONMENT AT KIRI PARK

The Property for the venture is a parcel of land located in the Gingin Shire (near Regans Ford) with river frontage and is known as Kiri Park. It is cleared and was until 1999 cropped and grazed by cattle. The Property was regularly fertilized and supported a reasonable mixture of clover, lupins and grasses. The environmental and management parameters governing this site are well within the limits of supporting a commercially viable plantation. Key factors for the commercial production of Paulownia wood are light, water, nutrients and soil porosity.

CLIMATE

Paulownia is a deciduous tree, indigenous to south and east China that has been grown successfully around the world in plantations in a wide range of climatic zones. Naturally it occurs between latitude 20° and 30° mostly in warm temperatures to tropical zones. The temperature range in its natural distribution is -10°C to 40°C with an annual rainfall of 500 to 1200mm mostly during spring and summer. The species is not tolerant to prolonged periods of drought or waterlogging. Because of the Mediterranean climate (winter wet/summer dry) in the Gingin region, Paulownia must be well irrigated if good growth rates are to be achieved. Paulownia is a sunlight loving tree (high light saturated point and low light compensation point). High solar radiation during summer in the Gingin region is advantageous for maintaining a high photosynthetic rate to sustain rapid growth. Due to the climate of the Gingin region, the growing season as Kiri Park is longer than in the southwest region of Perth. Overall, the climate at Kiri Park is very suitable for growing Paulownia. Trees planted each year since 1999 are growing rapidly at Kiri Park.

SOILS

Paulownia has a deep root system with extensive lateral roots. This root system can forage for near-surface nutrients and explore sub-soil up to five metres for water. Like most trees, Paulownia performs best on deep, well drained soil (pH5-6) will good aeration. Paulownia grows well on sand with heavy loams where there are readily available nutrients. The property at Kiri Park has both loamy and sandy soils that in the past supported a tall woodland of eucalyptus. The soil profile has good water and nutrients holding capacities. The pH of soils at Kiri Park is around five and within the acceptance limits for growing Paulownia. However, additional lime should be added prior to planting to raise the pH as well as providing Ca for plant growth. Fertilizers were regularly applied to the soil to support pastures in the past, thus there is a residue of nutrients for plantation establishment. However soil fertilizer is recommended to compensate low nitrogen and phosphorus content of the land. The use of a legume ground cover would maintain organic matter in the soil to provide an annual input of nitrogen. Additional fertilizer applied through the irrigation system will be necessary during the growing season to ensure rapid tree growth.

Paulownia is not resistant to salt and growth is severely retarded in soils of moderate salinity and that are low in salt.

WATER

The absence of summer rain at Kiri Park property required that over 500mm of rainfall above of that of evaporation be provided from irrigation during this period. Paulownia requires five to fifty litres of water per tree per day depending on the age of the tree and the weather conditions. Adequate water for the Project is available from developed bores and a large dam on the property. The Waters and Rivers Commission has granted a Water License to the Manager allowing him to pump over 1,7 gigalitres per annum from the superficial water level. This is sufficient to provide the required water to the Project. The low salt (NaC1) level in the water is important for good growth of the trees.

SILVICULTURE OF PAULOWNIA

This section of the Report covers all areas of the Paulownia venture, including:

- ❖ selecting the correct genetic planting material,
- ❖ growth in the nursery and plantation,
- ❖ ongoing plantation management and
- ❖ timber harvest.

Each of these key areas in Paulownia management has been adopted by the Responsible Entity and is discussed in turn. Prescriptions are contained within the Operations Manual and are based on the successful establishment of three previous plantations and Kiri Park, as well as the result of the Parent Company research activities.

SELECTING THE CORRECT GENETIC PLANTING MATERIALS

Genetic Planting Materials

Clonal lines of Paulownia, taken from selected three to seven year-old plus trees in Nowergup, Western Australia, will be used for the Project. The parent trees were grown from seeds initially obtained by Toad Gully Growers in Victoria. The trees were selected on the following attributes: fast grown rate, canopy structure, trunk form and wood quality. This approach is standard in clonal plantation forestry.

The plus trees are registered with the Australian Tree Breeders Association. This species appears best suited to Western Australian growing conditions north of Perth.

GROWTH IN THE NURSERY AND PLANTATION

Production of Plants

The clonal planting material will be produced by organ culture from the mother plants maintained by the Manager. These selections should provide uniformity and increased productivity of the Plantation under the Western Australia conditions. The plantlets from organ culture will be raised in a containerised nursery and hardened off prior to planting.

SITE PREPARATION

Planting areas will be ripped to one metre along the planting rows to ensure rapid root penetration. Weeds will be controlled chemically and by mechanical cultivation. A cover crop will be established to reduce wind erosion. Each plant will be provided with six irrigation outlets delivering approximately 9.6 litres per hour during establishment of the Woodlot.

PLANTING METHOD AND STOCKING RATE

Clonal plants will be planted by hand during the spring when the soils are thoroughly wet. Where required, infill planting will be carried out to comply with the guaranteed survival rate of 100 trees per Woodlot. Rows will be approximately 4.5 metres apart and planting stock will be approximately three to four metres along the rows totaling approximately 540 to 550 trees per hectare. The Responsible Entity has found that this spacing is ideal as in result in early canopy closure, creates high humidity under the canopy and promotes strong growth.

ON GOING PLANTATION MANAGEMENT

Trunk Development

In Western Australia, usually two years are required for plant to reach the desired height (approximately four metres). Maximum diameter growth will be achieved by careful control of leaf areas, growth from auxiliary buds, and stem extension. The Responsible Entity will combine the latest findings from China with pruning operation developed at Kiri Park and the Nowergup Plantation.

Weed Control

This is essential to limit competition for available nutrients and water that are placed near the young trees or applied through the irrigation system. The passages between the trees will be slashed on a regular basis and the weeds along the irrigation lines will be sprayed three to four times per growing season as required. Plastic mulch is applied to reduce the amount of chemicals used for the control of weeds along the rows.

Pest and Disease Control

The Responsible Entity will regularly inspect the Paulownia Plantation and report directly to a forestry expert if observed changes in health of the plantation become apparent. The Plantation health survey component of the Operations Manual describes possible problems such as insect and nematode pests, fungal and bacterial diseases, and nutrient imbalances. This will assist the early identification of any problems should they arise. Approval spraying problems will be undertaken if insects or diseases threaten the trees. Paulownia is largely free of pests and diseases in the region.

Nutrition

Tree growth is strongly determined by the supply of essential plant nutrients added as fertilizer. After ripping the trees lines, an initial application of fertilizer containing trace elements will be added to the soil, based on soil analysis, and then incorporated into the ground. Once tree growth occurs in mid spring, liquid fertilizer will be applied at each irrigation in proportion to the demand for growth. The nutrient status of representative trees will be monitored: leaves will be sampled regularly during the growing season for foliar analysis by the laboratory experienced in plantation forestry. Foliar concentration ranges for healthy Paulownia have been determined by the Responsible Entity's forester Dr Nicholas Malajczuk, and verified by myself for the trees during the establishment phase.

Canopy Management

After the establishment phase (growing season one and two), the canopy will be top pruned using cherry pickers to promote vigorous new shoots and maximum leaf area.

Growth Monitoring

The Manager will set up representative growth plots for the whole Plantation and diameter growth will be monitored annually from growing season two.

TIMBER HARVEST

Progressive Harvests

The plantation is to be progressively harvested annually after the sixth growing season for millable logs and to provide space for the continued tree growth. The proposed harvest of the Tree in each Woodlot during years seven, eight, nine and ten of the Project, will be 17, 13, 12 and 58 trees respectively. Coppiced trees are successfully being regrown within the Responsible Entities own establishment plantation in Nowergup. The results are promising and the Responsible Entity will continue to monitor the progress and will apply his findings to the Project. The top wood trash from the harvested tree will be mulched, add further nutrients into the ground.

Yield

Information available at the time of writing this report suggests that the forecast yield of rough sawn timber per tree after six, seven, eight and nine growing seasons will be 0.49,0.59,0.68,0.78 cubic metres respectively, which based on a 65% recovery rate, will produce an average yield per Woodlot of approximately 69.4 cubic metres over the Project. The timer yields are based on yield data from three sources: data from the Paulownia Research Centre in Zengzhou, Henan Province China (a major commercial Paulownia growing region); regular measurements of the Manager's own plus trees on Western Australia; and Paulownia yields in Eastern Australia. The forecast yields appear reasonable given the experience and expertise of the Responsible Entity, the genetics of the planting stock and the site characteristics of Kiri Park.

RISKS

The risks in growing Paulownia are similar to those encountered in many primary production activities, which I have prepared and are set out in detail in section 8.6 of the PDS.

RESEARCH AND DEVELOPMENT

The Responsible Entity has developed innovation management practices and has funded independent research into Paulownia silviculture. The Responsible Entity proposed to continue these activities and the PDS has budgeted for an ongoing research component. The Research and Development Program will target three areas: timber utilisation, genetic improvement, and silviculture. The Technical Consultant to the Responsible Entity, Dr Nicholas Malajczuk, has over 20 years experience in plantation research.

CONCLUSIONS

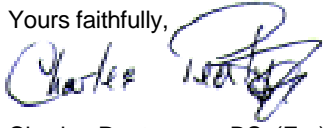
The growing of Paulownia at Kiri Park is feasible and is being achieved. Success of the Plantation, from a forestry perspective, depends on growth rates and log prices at time of harvest. Growth rates are conditional on correct site selection, good site preparation, use of selected clonal plants, and thorough management by the Responsible Entity.

Management proposals contained in the PDS for the establishment of Paulownia plantations incorporate the latest development in the industry. Forecast yields assume best forestry management practices and are subject to normal risks encountered in primary production. The final resources proposed for Paulownia silviculture will show the trees to be intensively managed. Subject to the normal risks associated with plantation forestry operations, I expect the Project to be successful from a forestry perspective.

DISCLAIMER

The conclusion that Paulownia will grow well and achieve commercial quantities of timber at Kiri Park is based on my knowledge of Paulownia; analysis of prevailing environmental parameters at Kiri Park, and the nursery and silvicultural practices that the Responsible Entity has developed in previous projects at Kiri Park and other successful locations. I declare that this is an independent report as I have no interest in the Responsible Entity, the Parent Company, nor any other party in the Project.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Charles Peaty', is written over a circular stamp. The stamp contains the name 'Charles Peaty' and the text 'BSc(For)'.

Charles Peaty

BSc(For).