

MANAGER'S REPORT TO GROWERS

CALENDAR YEAR 2009/2010
FEA PLANTATIONS PROJECT 2008

Summary

Project		2008 (option 1) Eucalypt			2008 (option 2) Pruned Eucalypt		2008 (option 3) Pine	
Plant year		2009						
Approx age at audit (years)		0.5						
Regions		TAS	NSW	QLD	TAS	NSW	TAS	
% in Region		39%	59%	2%	55%	45%	100%	
Mean dominant height (meters)		0.5 - 2						
Inventory Growth Rate (MAI) forecast (m ³ /ha/yr)		Pre-thin inventory scheduled 2015/16				Pre-thin inventory scheduled 2019/20		
Growth & Health		Establishment in progress. Generally good early growth						
Pests & Disease		Animal and insect browsing issues are being monitored						
Weeds		Ongoing Pre and Post plant weed control required						
Fire Management		Firebreak maintenance and some additional firebreak works required						
Access		Access roads constructed or upgraded during plantation establishment. Some additional works identified during audit						
Other		No significant issue			Option 2 pruning planned for 2011/12		No significant issue	
Harvest year (Actual/Planned)	Thinning	2018			2018		2022 & 2027	
	Final Harvest	2022			2025		2034	

Annual Audit

FEA Plantations Limited (Administrators Appointed) (Receivers Appointed) (FEA Plantations) is pleased to provide you with this annual report on the progress of the plantations in your project. The report is based on an annual field audit conducted by both FEA Plantations and Van Diemen Forestry Consultants Pty Ltd (the Independent Forester).

FEA Plantations currently manages 16 plantation projects, established from 1994 to 2010, with plantations located across Tasmania, northeast New South Wales, southeast Queensland and the Northern Territory. At the end of 2009, the total estate managed by FEA Plantations was approximately 70,000 hectares established on 700 individual properties.

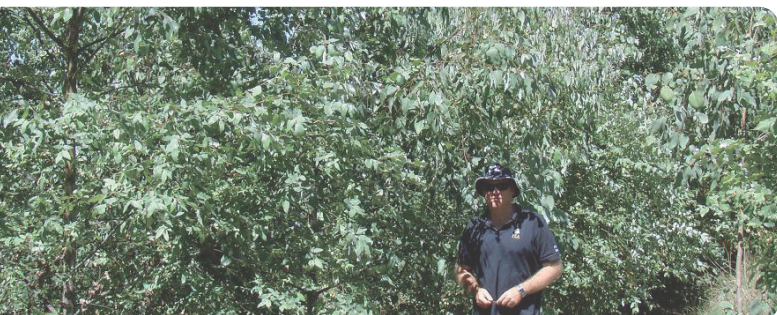
Stage 1 of the current audit process involves an internal Manager's Audit based on approximately 25% of the coupes in each Project on an annual rotational basis.

Stage 2 requires the Independent Forester to, in turn, field audit approximately 25% of the coupes reviewed in the Manager's Audit for the purpose of verifying the accuracy of the Manager's Audit.

The Independent Forester is provided access to the Manager's Audit results, inventory measurements, and reports on forestry operations conducted on each property in the project during the year. It is important to note that both the Manager's Audit and the Independent Forester's Audit are in addition to the routine inspections conducted by FEA's forestry staff throughout the year on all properties managed by FEA Plantations.

During the summer 2009/10, the properties in this project were inspected by the Independent Forester and FEA staff.

It is the intention of FEA Plantations to provide you with a copy of the Independent Forester's report at a later date.



The Manager's Report to Growers for this project is detailed below.

Growing Season

The following information has been sourced from the Australian Bureau of Meteorology.

Tasmania

Overall, 2009 was a warm and wet year which has been excellent for tree establishment and growth. After three 'dry' years, 2009 was wetter than usual across almost all of Tasmania. Not since 1996 have there been such widespread wet conditions across the State.

A large contribution to the wet year came from several two to three-day events with very heavy rainfall. Temperatures in nearly every month were warmer than usual and in January the State experienced a heatwave, with many centres experiencing their hottest days on record. In September, strong southerly winds caused damage in many areas of Tasmania, including wind-throw in a small number of FEA Plantation properties in Projects 1995, 1998 and 1999 (i.e. Trusts 3, 6 and 7). The wind-throw event is discussed later in this report.

NSW

2009 was the warmest year on record for the State of NSW, with northern NSW experiencing extreme heat during August and a heat wave in November.

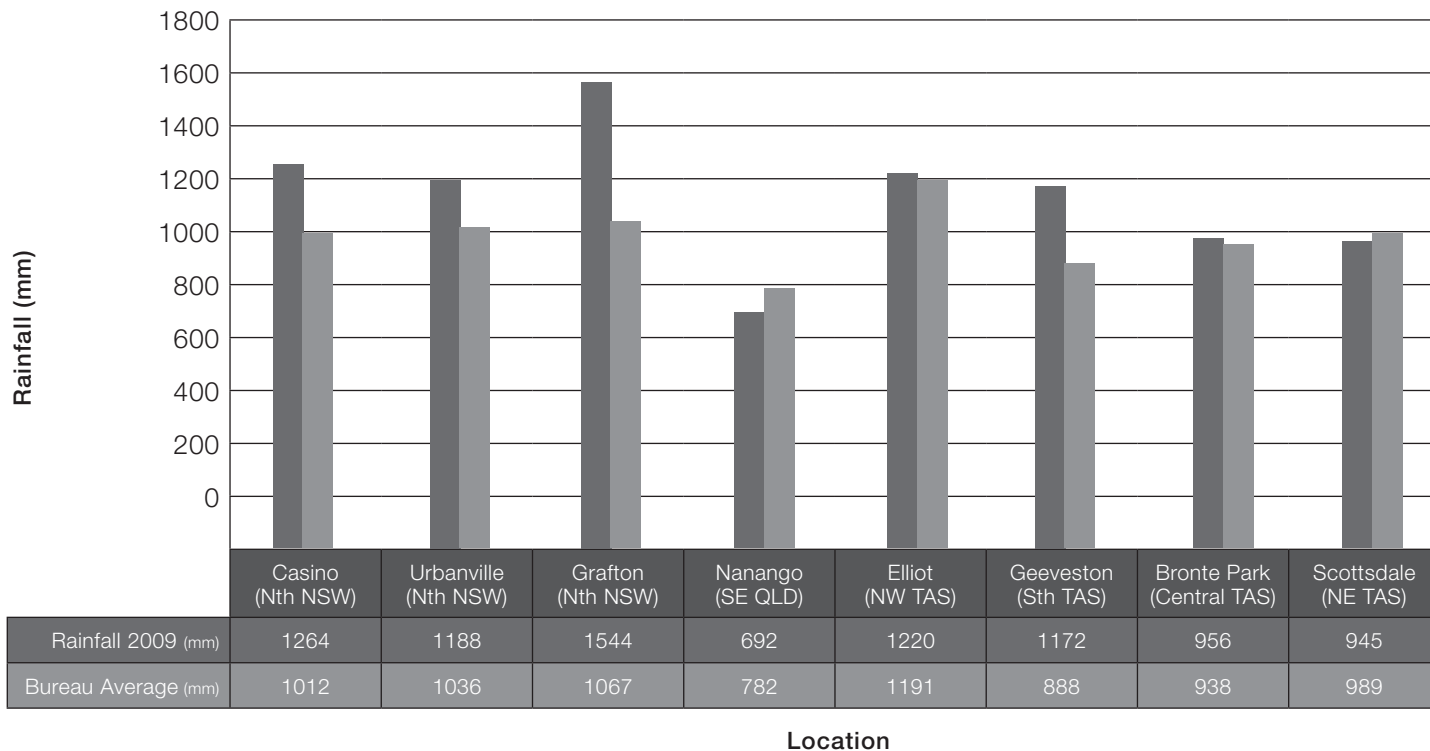
The far-north coast received above average rainfall for the year. The mid-north coast recorded well above average rainfalls for the year, with the Coffs Harbour area flooding five times during the year. No flood damage was incurred in FEA plantations. Overall, the warm and wet conditions proved excellent for plantation growth.

Queensland

2009 was characterised by a wet start to the year, an unusually warm and dry winter, with a wet finish. Rainfall for the FEA Plantations region was generally below average for the year.

The chart below provides a comparison for rainfall in 2009 against the long-term average for Project 2008 regions.

Rainfall 2009 vs Bureau Average (Tasmania, NSW & QLD)



Plantation Maintenance

Project 2008 is comprised of 176 individual plantation properties. Option 1 of Project 2008 consists of one hundred and twenty-six of these properties, located in Tasmania, northern NSW and south-east Queensland; Option 2 of Project 2008 contains forty-four individual properties, located in Tasmania and northern NSW; and Option 3 contains six properties, all located in Tasmania.

Project 2008 plantations are growing well and are in good health in Tasmania, following the warm and wet season. In NSW, the above average rainfall has contributed to a good growing season. In Queensland, there has been continued below average rainfalls and remedial action may be necessary. All plantations have been fertilised at planting.

Tasmania

In Tasmania, animal browsing control is a major focus during the first growing year. Continuing browsing control is required for the first year, after which the trees should be large enough to reduce the need for browsing control. Minor damage caused by Chrysomelid leaf-beetle and Gum Leaf Skeletoniser (*Uraba lugens*) was noted in some plantations inspected.

NSW and Queensland

In NSW and Queensland, some minor outbreaks of psyllid (sap sucking insects) and chrysomelid have occurred. Spotted Gum plantations are susceptible to the *Quambalaria* fungus, for which there is currently no effective treatment. Where Spotted Gum plantations have required replanting under the stocking guarantee, they have been replaced with the more disease and frost resistant Sydney Blue Gum (*E.saligna*).

In the Walcha region, establishment of the northern provenances of *E.nitens* has been standard, as these seedlings are proving less susceptible to the *Mycosphaerella* fungus than those from southern provenances stock

In the next few years when plantations gain site dominance they will generally be able to suppress most weed competition. This year, pre-plant weed spraying and post-plant inter-row spraying have been conducted on most properties. In a few years, when the trees are taller, sheep and cattle grazing through agistment will be used on some properties to reduce grass competition and fire hazard. This has an added benefit in assisting farming communities.

During the summer 2009/10 fire season, there were no fires on Project 2008 properties. A need for some additional firebreak maintenance work was identified during the audit.

There have been no significant issues regarding access to the properties. Slashing and grading should be planned to improve access into some of the properties.

Due to their likely rapid early height growth, pruning of some NSW Option 2 (pruned eucalypt) plantations should commence during 2010/11. Tasmanian Option 2 woodlots should be pruned on schedule during 2011/12.



Plantation Marketing

Thinning and final harvesting of Project 2008 properties was scheduled as per the summary table on page one of this report.

Pre-thin inventory of Project 2008 should be completed during 2015/16 (age 6 years) for Option 1 and 2 (eucalypts) and 2019/20 (age 10 years) for Option 3 (pine). Growth rate forecasts should be provided in terms of Total Standing Volume (TSV)¹ and Total Recovered Volume (TRV)².

This should provide valuable information on the progress of the plantation. The inventory should also provide FEA Plantations additional guidance on requirements for additional fertiliser treatments to boost growth rates.

It should be noted that growth rates are only one part of the grower's financial return equation. Stumpage rates (i.e. the value of wood to the grower per tonne) equally affect financial returns. FEA had worked hard to ensure that maximum value adding, and hence optimal grower stumpage return is achieved (e.g. through EcoAsh® and EcoAshclear® sawlog production). Competitive pricing for pulpwood sales and harvesting and haulage rates also ensure optimal stumpage returns. All harvesting costs and returns are reviewed by the Independent Forester to monitor that fair current market value is being achieved.

¹ TSV is a measure of the total under-bark tree volume from ground to tree tip - including non-merchantable wood products such as stumps and tree-tops. This is an industry standard for tree measurement.

² TRV is a measure of the estimated volume production of log products - excluding non-merchantable wood products such as stumps and tree-tops. This figure is heavily influenced by current log specifications. For example, if pulpwood customers agreed to accept smaller diameter logs, TRV would increase. As such, TRV is the best indication of actual log production close to harvest time, but potentially less accurate for longer term forecasts. It should also be noted that it is normal for a thinned plantation to yield less total volume over a short 13-year rotation than an unthinned plantation - the rationale for thinning is that the earlier partial financial return at age 9-years combined with the increased value of clearfall log products in the thinned stand should outweigh the opportunity cost of potential volume loss incurred through thinning.

The 2009 Year in General

FEA Plantations' estate has expanded significantly since our last report with some 13,490 hectares established during the 2009 calendar year. Site preparation work also commenced during the year for our inaugural Project 2009 plantings of African mahogany (*Khaya senegalensis*) in the Douglas Daly region of the Northern Territory.

During 2009, FEA Plantations also secured the opportunity to lease high-quality second rotation plantation sites from the NSW State Government agency, Forests New South Wales. This agreement was designed to provide access to a minimum of 4,500 hectares of high quality land in the Coffs Harbour over the next three years.

Harvesting during 2009 and early 2010 has also involved continued thinning of properties in Project 1999 (Trust 7) and Project 2000. During 2009, pulpwood was sold to Smartfibre at Bell Bay and Gunns Limited at Hampshire in north-west Tasmania. EcoAsh® sawlogs were sold to the FEA Bell Bay sawmill during the period, however, overall volumes were lower than in 2008 due to a general downturn in sawn timber markets.

In September 2009, strong southerly winds caused widespread damage in Tasmania, including windthrow in a small number of properties in Projects 1995, 1998 and 1999 (i.e. Trusts 3, 6 and 7). The total area affected was 30 hectares. The insurance cover, which FEA Plantations arranged for growers, does provide cover against windstorm.

Now that salvage harvesting has been completed, FEA Plantations is in a position to submit a claim on behalf of affected growers. Processing of the claim is in progress.

Two fire-damage events occurred during the 2009/10 fire season. In October 2009, a large fire on adjoining land in south-east Queensland affected approximately 15 hectares of a Project 2005 property. The affected area has now recovered and no insurance claim has been necessary.

In January 2010, a fire escaped from a neighbours land in north-west Tasmania and affected approximately 22 hectares of a Project 1999 (Trust 7) property. An insurance claim is currently underway for this event.

In the coming financial year 2010/11, harvesting was planned to focus on:

- continuing thinning of Project 1999 (Trust 7) and Project 2000;
- commencement of thinning in Project 2001 properties in northern Tasmania;
- completion of clearfall harvesting in Project 1994 (Trust 2); and
- commencement of clearfall harvesting in Project 1995 (Trust 3).

It should be noted that the performance of any one FEA Plantations' project is not an indication of the likely performance or returns of any other FEA Plantations' projects. It should also be noted that the harvesting plan is subject to change due to changes in weather, market conditions and contractor availability.

The market for pulpwood was challenging during 2009 with Japanese customers significantly reducing woodchip purchases from all Australian suppliers. This was a result of the 'Global Financial Crisis' and its impact on both demand and production of paper products. Australian producers remain competitive, but the foreign exchange rate (i.e. the high Australian dollar) has eroded this competitiveness over the 2009 pricing cycle. Due to the quality of Australian woodfibre, shorter shipping distances and the established relationships, Australia is still amongst the preferred suppliers to Japanese pulp and paper manufacturers.

The FEA Bell Bay sawmill is Tasmania's largest single-site solid wood processor and continues to grow and develop. In 2010/11, the sawmill planned to process up to 350,000 tonnes of plantation logs. With recovery being experienced in solid wood sales, it was FEA's aim to increase its log input to at least 500,000 tonnes by 2012/13.

FEA was uniquely positioned to capitalise on the projected structural timber market recovery and to continue to grow markets based on continual supply of quality BassPine® and EcoAsh®.

FEA continued to conduct R&D trials into both solid and engineered wood products for the mainland resource. This included sawing trials of African mahogany and a number of FEA's subtropical eucalypt species. In addition, FEA investigated wood processing and sales opportunities to be prepared for when the first of the mainland estate became ready for harvest.

Keeping You Informed

FEA Plantations will continue to keep you informed through the new www.feaforestry.com website.

Yours sincerely

FEA Plantations Limited (Administrators Appointed)

