

MANAGER'S REPORT TO GROWERS

CALENDAR YEAR 2009/2010
TASMANIAN FORESTS TRUST NO.2

Summary

Project	1994	
Plant year	1994	
Approx age at audit (years)	15	
Regions	TAS	
% in Region	100%	
Mean dominant height (meters)	29	
Inventory Growth Rate (MAI) forecast (m ³ /ha/yr)	29.4* 23.5#	
Growth & Health	Good growth response to thinning. Excellent Health	
Pests & Disease	No significant issue	
Weeds	No significant issue	
Fire Management	No significant issue	
Access	No significant issue	
Other	No significant issue	
Harvest year (Actual/Planned)	Thinning	Jan 03 - May 04
	Final Harvest	Commenced Dec 2009 - Expected completion Oct 2010

* Expected growth rate (Mean Annual Increment - MAI) based on inventory standard of Total Standing Timber Volume – Unthinned @ 15 years (TSV)¹

Expected growth rate (Mean Annual Increment - MAI) in terms of Total Recovered Log Volume – Thinned @ planned project rotation length (15 years) (TRV)²

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

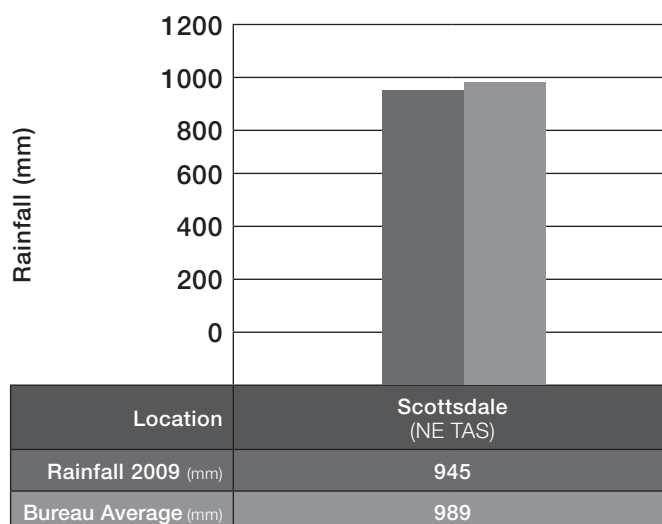
Overall, 2009 was a warm and wet year which has been excellent for tree establishment and growth. After 3 dry years, 2009 was wetter than usual across almost all of Tasmania. There have not been such widespread wet conditions across the State since 1996. A large contribution to the wet year came from several 2 to 3 day events with very heavy rainfall.

Temperatures in nearly every month were warmer than usual. 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 properties in Projects 1995, 1998 and 1999 (i.e. Trusts 3, 6 and 7). The wind-throw event is discussed later in this report.

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

**Rainfall 2009 vs Bureau Average
(Northern East Tasmania)**



Plantation Maintenance

Project 1994 is comprised of two individual properties located in north-east Tasmania.

The north-east of Tasmania had a mild year with above average rainfall. Project 1994 plantations are in excellent health and continued to show a good growth response to previous thinning and are in excellent health. There have been no significant weed, pest or disease issues. These plantations are now sufficiently mature so as to withstand moderate insect attack. The plantations now dominate the sites and are able to suppress most weed competition.

During the summer 2009/10 fire season, there were no fires on Project 1994 properties.

There have been no significant issues this year regarding access to the properties.

Plantation Marketing

In our letter dated 25 March 2009, FEA notified Project 1994 growers of its intention to commence final clearfall harvest between October and December 2009. Following a rigorous process to ensure that the best available harvest returns were obtained for growers, harvesting commenced in December 2009.

During August and September 2009, FEA sought formal expressions of interest from eight other (i.e. non-FEA group) Tasmanian log-purchasing companies, for the mill-door purchase of Project 1994 wood.

During October 2009, FEA also sought formal expressions of interest from selected contractors for the harvesting of Project 1994 wood. The proposal acknowledged that current demand for sawn timber in general was low and that this may affect the amount of Project 1994 wood which could be sold as sawlog. In consideration of the outlook for pulpwood and sawlog pricing and demand, the FEA Plantations Board approved the proposal subject to the review of the Independent Forester.

Final harvesting of the property NE003b (Billycock) commenced in December 2009 and has now been completed. Harvesting of NE046a (Warrentina) has commenced. It is expected that harvesting of NE046a should be completed around October 2010.

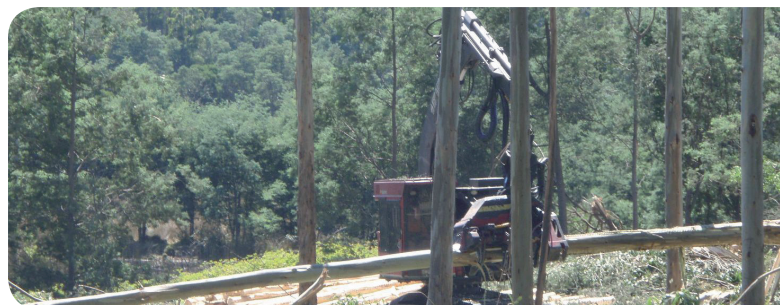
The first clearfall harvest distribution for Project 1994 was scheduled for May 2010. The funds are held in a separate Harvest Proceeds Custodian account, but distribution has been delayed due to the administration and receivership of both Forest Enterprises Australia Limited (FEA) and FEA Plantations.

Based on inventory measurements, the current projected total average harvest yield for Project 1994 is approximately 352 m³ / hectare (including the 2003/04 thinning yield of 99 m³ / hectare), which equates to a mean annual growth rate of 23.5m³/ha/yr (TRV)² at age 15 years. This forecast is close to the original prospectus growth rate estimate of 25 m³/ha/yr.

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 15-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.feeforestry.com website.

Yours sincerely

FEA Plantations Limited (Administrators Appointed)