

MANAGER'S REPORT TO GROWERS

CALENDAR YEAR 2009/2010
TASMANIAN FORESTS TRUST NO.7

Summary

Project		7			
Plant year		1999	2000	2001	2001
Approx age at audit (years)		10	9	8	8
Regions		TAS		NSW	QLD
% in Region		13%	35%	22%	24% 6%
Mean dominant height (meters)		19	19	15	18 19
Inventory Growth Rate (MAI) forecast (m ³ /ha/yr)		22.2* 18.8*			
Growth & Health		Generally good growth & health. Growth of some stands affected by past drought and pest and disease issues			
Pests & Disease		Some chrysomelid beetle damage in some coupes. Full recovery expected		Some control required for psyllid in E.dunnii. Several E.grandis stands affected by cossid wood-moth and Corymbia stands by quambalaria fungus	
Weeds		No significant issue			
Fire Management		Fire affected 22ha of NW Tas coupe. Insurance claim in progress.			
Access		No significant issue. Some additional maintenance works planned			
Other		Thinning began July 08 – Ongoing. Windthrow affected 6ha of one NW Tas coupe. Insurance claim in progress.	Thinning began September 09 – Ongoing	-	-
Harvest year (Actual/Planned)	Thinning	2008-11			
	Final Harvest	2012-16			

* 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 (13 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

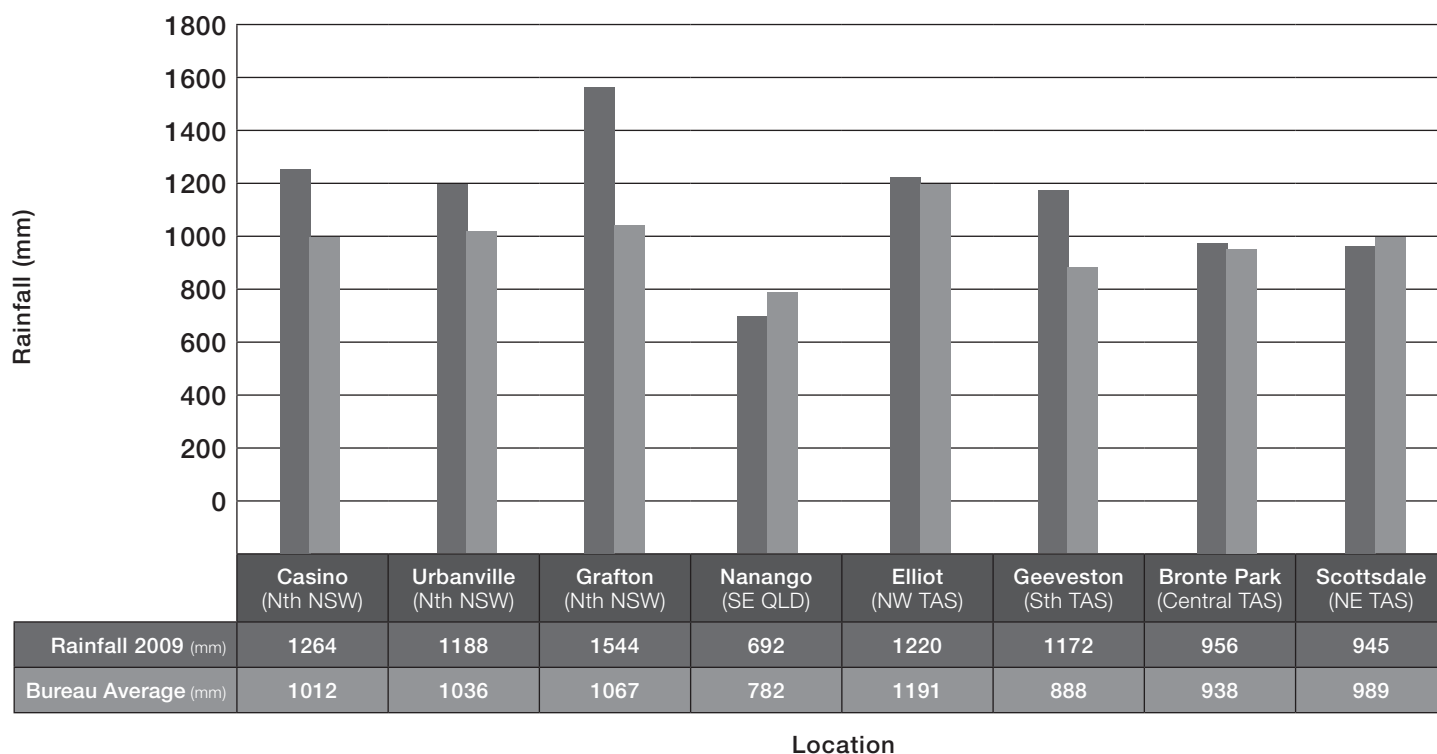
Overall, 2009 was a warm and wet year which has been excellent for tree establishment and growth. After 3 dry years, 2009 was wetter than usual across almost all of Tasmania. There have not been such widespread wet conditions across the State since 1996. A large contribution to the wet year came from 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 2009, 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 regions in this project.



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



Plantation Maintenance

Project 1999 is comprised of 232 individual properties located in Tasmania, northern NSW and south-east Queensland.

Project 1999 plantations are generally growing well and are in good health in Tasmania, following the warm and wet season. Several of the Tasmanian plantations assessed showed excellent growth rates and site dominance while some plantations with exposure to cold winds are, though healthy, showing some reduction in growth rates.

Tasmania

In NSW, the above-average rainfall has contributed to a good growing season this year. In Queensland, the more mature Project 1999 plantations have coped well with the below-average rainfall year.

In Tasmania, there have been no significant pest or disease issues this year. Minor damage caused by Chrysomelid leaf-beetle was noted in some plantations inspected.

NSW

In NSW, some control has been required for psyllid (sap sucking insects), which has been effective, though those plantations which have been subjected to repeated annual attacks are showing signs of stress. Some coupes have been affected by Longicorn beetles, which have wood boring larvae. Several *E.grandis* (flooded gum) plantations have cossid wood-moth grub. While the grub itself does not seriously affect pulpwood quality, it can contribute to tree mortality.

Queensland

In Queensland, some mapping issues were identified which will be corrected on the Geographic Information System (GIS) database.

There have been no significant issues regarding weed control. Generally, the plantations now dominate the sites and are able to suppress most weed competition. Sheep and cattle grazing through agistment is used on many properties to reduce grass competition and fire hazard. This has an added benefit in assisting farming communities.

In September, 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. In Project 1999, a total area of 6.03 hectares was affected on one coupe, CC004b.

The damaged area has now been clearfall salvage harvested. The insurance cover which FEA arranges for growers does provide cover against windstorm. Now that salvage harvesting has been completed, FEA is in a position to submit an insurance claim on behalf of the affected growers. Processing of the claim is in progress.

During the summer 2009/10 fire season, one Project 1999 property was affected by fire. An area of approximately 22 hectares on coupe CH020a in north-west Tasmania was affected by a fire in January 2010. The fire had escaped from a neighbouring land owner's permit burn. An insurance claim has been submitted for the affected area and there should be follow up directly with the affected growers.

A need for some additional firebreak maintenance work was identified during the audit. FEA retained an emergency response fire plan, fire suppression equipment and staff duty roster throughout the fire season.

There have been no significant issues regarding access to the properties. Roads being used for harvest have been upgraded progressively. Slashing and grading was planned to improve access into some of the properties.



Plantation Marketing

Thinning of Project 1999 commenced in July 2008. At the end of February 2010, twenty-two properties totalling 1400 hectares have been thinned to date. This represents approximately 13% of the total project area. The harvest distribution for the sale of wood from thinning harvest completed 31 March 2010 was scheduled for May 2010. The funds are held in a separate Harvest Proceeds Custodian Account.

Distribution has been delayed due to the Administration and Receivership of both FEA and FEA Plantations.

Project 1999 is a large project comprised of around 10,500 hectares and it was established over parts of three calendar years or about a 24 month period, compared to earlier FEAP projects which are significantly smaller and generally established over a single year.

As detailed in our report last year, it is because of these scale issues and the need to 'smooth' woodflows to match market demand, that FEAP's modelling suggests returns will be optimised for investors in Project 1999 through an ongoing annual harvesting program, with thinning and clearfall harvesting occurring over a combined 9-year period from 2008 to 2016 rather than these operations being restricted to a single year.

The current harvesting schedule provides for a steady annual increase in harvesting volumes, commencing with the thinning harvest in 2008. The completion of thinning harvesting should overlap with the commencement of the clearfall harvesting and harvest volumes are anticipated to peak in 2015.

As stated last year, the current inventory, which is based on age 6-years measurements, forecasts a whole project MAI of 22.2 m³/ha/yr at age 15 years TSV¹. This forecast equates to an average total recovered log volume growth rate for the thinned stand (TRV)² of 18.8 m³/ha/yr at the planned rotation age of 13 years.

The current Project 1999 forecast TRV growth rate would yield a total volume production of approximately 244 m³/ha (including thinnings) for the project as a whole at age 13 years. This forecast suggests that project growth rates for Project 1999 may not achieve the original prospectus forecast of 28m³/ha/yr. It should be noted that, as no suitable subtropical eucalypt growth models are currently available all FEA modelling has been conducted using the Tasmanian E.nitens growth model. FEA was working on projects to develop appropriate subtropical eucalypt growth models as a matter of priority.

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.feeforestry.com website.

Yours sincerely

FEA Plantations Limited (Administrators Appointed)