Report to 1999-2009 Scheme Growers

Administrators' Advice and Recommendation for Grower Meetings for 1999 to 2008 Schemes to resume on 4 April 2011

FEA Plantations Limited (Subject to Deed of Company Arrangement) (Receivers Appointed) ("FEAP")
Report 30 March 2011

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1 INTRODUCTION AND RECOMMENDATION

We recommend Growers again adjourn the meetings to consider the replacement of FEAP as both Manager and Responsible Entity (BlackTree Proposals). This will allow Growers to consider the alternative RFM Proposal side-by-side with the BlackTree Proposals.

If Growers do not accept the RFM Proposal, or if it is withdrawn, Growers will retain the option of adopting the BlackTree Proposals.

Growers are being asked to vote on the BlackTree Proposals (outlined later) at Meetings that will resume on 4 April 2011. These Meetings have been convened by some Growers who support the BlackTree Proposals, not the Administrators or the Responsible Entity. Accordingly, Growers should contact BlackTree if they have questions regarding attendance at the Meetings or lodgement of proxies at:

http://www.blacktreeltd.com.au

In considering how they vote on the BlackTree Proposal relevant to their Scheme, Growers should understand that the alternative Rural Funds Management Limited ("RFM") Proposal to reconstitute and recapitalise the 1999-2009 Schemes are now with the Banks, awaiting final Credit Approval. The RFM Proposal will, we expect, be put to Growers for their consideration in the near future. However, if the BlackTree Proposals are accepted, the RFM Proposal may become commercially incapable of acceptance.

The BlackTree Proposals do not directly related to Growers in the 2009 Scheme, however we have provided this Report to Growers in that Scheme because the relevant RFM Proposal will affect their position.

The RFM and BlackTree proposals are at present mutually exclusive. The Banks have the right to withdraw their agreement to the RFM Proposal if Growers adopt the BlackTree Proposals.

2 SUMMARY OF THE PROPOSALS

2.1 RFM Proposal Summary

The commercial aspects of the RFM Proposal have now been resolved. It is now intended to achieve agreed financial outcomes within a timetable which provides for RFM to raise $185 million necessary for its implementation. The main elements of the RFM Proposal are:

- Growers' current entitlements to specific harvest proceeds will be converted into "Units" in a newly created entity which will own the timber and land and a second entity which will harvest the trees. The 1999-2009 schemes will, in effect, be merged and the value attributed to each Grower will be calculated by reference to the Net Present Value of their entitlements;
- Growers gain the benefit of any future increase in the FEA "owned" land value.
- RFM will introduce long-term institutional investors into the new entities which could generate higher returns for Growers. RFM will raise $85 million in new equity to finance a restructuring and borrow $100 million in new bank debt;
- Growers **WILL NOT** have to contribute further funding for Scheme costs after implementation of the RFM Proposal;
- Contributions made and to be made by Growers to the Voluntary and Deed Administrators will be converted to equity in the new structure, benefiting those Growers who support their Schemes.

Growers should note that further contributions will be required to keep their Schemes operating until the RFM Proposal is implemented. Growers are therefore requested to pay their outstanding and continuing voluntary contributions.

Details of the RFM Proposal are outlined in **Section 5**.

2.2 BlackTree Proposals Summary

The current BlackTree Proposals emerged at Grower Meetings convened with the assistance of the FEA Growers Group ("FEAGG") on 28 February 2011.

The BlackTree Proposals relate to Schemes 1999-2008 and do not include the 2009 Scheme. They involve Growers agreeing to convert 2003-2008 Schemes into "pay as you go arrangements" being upfront contributions to fund on-going Scheme costs. These Schemes currently operate under a deferred payment arrangements except for insurance.

The BlackTree Proposals contemplate the appointment of BlackTree as Manager of the Schemes with a view to later replacing the current Responsible Entity, FEAP, with Primary RE.

There are complex issues relating to the BlackTree Proposals; in particular in relation to the separate Grower Management Agreements with FEAP. It is our view that for the BlackTree Proposals to be implemented, Directions will be required from the Court on a number of legal issues.

Details of the BlackTree Proposals are outlined in **Section 4**.

2.3 Administrators' Comments

It is the view of the Administrators that the RFM Proposal is likely to result in higher return to Growers than the BlackTree Proposals and has lower implementation risk.

The RFM Proposal provides for a complete restructuring of the Schemes and involves funding their working capital needs so that Growers are not required to contribute additional funds after implementation, and creates a merged land and timber entity in which Growers will hold a direct interest.

Furthermore, as the Banks would be more likely to be repaid under the RFM Proposal, ongoing litigation and related risks to the Schemes are removed enabling Growers to benefit from more immediate harvesting.

While it is the stated intention of the FEAGG and BlackTree to present alternative restructuring proposals to Growers, we believe that replacing the manager and converting the 2003 to 2008 Schemes to "pay as you go" Schemes now is likely to hamper consideration of the RFM Proposal.

Growers will soon receive Notices convening Grower Meetings to consider the RFM Proposal. If Growers replace the Manager now and then accept the RFM Proposal, significant resources and money required to implement the BlackTree Proposals may be lost.

Annexure 1 a table comparing the RFM Proposal and the BlackTree Proposals.

3 BACKGROUND OF THE PROPOSALS

This Report is provided by the Deed Administrators of FEA Plantations Ltd ("FEAP"), the Responsible Entity for each of the FEAP Managed Investment Schemes (1999-2009) to you as a review of the RFM and BlackTree Proposals regarding the future of your individual Scheme.

The RFM Proposal is subject to acceptance by the Banks. It has not been possible before now to properly outline this proposal in detail to Growers. To assist in considering their proposal, RFM has provided an outline of it which is attached as **Annexure 2**.

Whilst the RFM Proposal provides for a complete restructuring of the FEA Schemes, there are implementation risks which need to be considered. RFM needs to complete their due diligence, confirm their equity-raising and debt funding, obtain Grower Meeting approval and mitigate any tax consequences for Growers of its restructuring plans.

RFM are confident that they can manage the implementation risks, however Growers do need to take them into consideration.

The FEA Growers Group ("FEAGG") provided us with Notices of Grower Meetings for the 1999-2008 Schemes, first convened for 28 February 2011. The Notices were accompanied by a BlackTree Explanatory Memorandum ("EM") for each Scheme setting out how they propose to amend each of the Scheme Constitutions and separately replace FEAP as the Responsible Entity.

The February meetings were adjourned to 21 March 2011 and then again to 4 April 2011. Through our representative at each of the meetings, we advised our intention to update Growers as to current developments once sufficient information was to hand.

On Friday 25 February 2011, we received a copy of the BlackTree EMs addressed individually to Growers where operational mechanisms contained in them had not been the subject of prior discussion with us.

We have since informed FEAGG and BlackTree of our concerns in respect of the EMs. We continue to seek to protect interests of both Growers in the Schemes subject to the BlackTree Proposals and those of other creditors, including Growers of those Schemes not encompassed in them.

Growers should note that BlackTree has accepted most of our observations, and revised Proposals are now set out on their website as either disclosures to Growers, and/or amendments to the proposed Constitutional arrangements.

Consistent with that approach, this Report outlines at a high level our observations as to both the BlackTree Proposals and the position of the RFM restructure Proposal detailed in **Sections 4** and **5** of this Report respectively.

We have not attached the original BlackTree Proposals as they have already been sent to Growers in the EMs.

Growers should note the Deed Administrators do not believe that FEAP should remain as the Responsible Entity of each Scheme in the long term. We recognise that it may be necessary or desirable for any number of reasons to replace it, including as a consequence of acceptance of one of the current proposals.

There is no financial benefit to the Deed Administrators recommending any of the alternate restructuring proposals currently being advanced. We recognise the need for the term of our appointment to be finite.

3.1 Receivers' Appeal Court proceedings

There have been no further developments in the legal proceedings since our report to Creditors of FEA on 23 March 2011.

4 COMMENTARY ON THE BLACKTREE PROPOSALS

We refer Growers to our Report dated 23 March 2011 which accompanied Notice of Meetings under Section 445F of the *Corporations* Act for Forest Enterprises Australia Limited which contained our initial views on the BlackTree Proposals.

We have expended considerable effort with BlackTree seeking to refine their Proposals so as to serve the interests of Growers. Growers should review the BlackTree website as there have been considerable additional disclosures and modifications to the proposed Scheme Constitutional amendments. These, in our view, significantly reduce our past objections to the documentary aspects of the BlackTree Proposals.

As Administrators, we still have ongoing reservations concerning aspects of the BlackTree Proposals. These include:

- The Proposals do not reflect the prospect of further litigation with the Banks and or the Receivers regarding the Banks' claimed security over the existing management agreements;
- Replacement of the Manager by the Growers, without replacement of the Responsible Entity, where it creates an extra layer of management with associated cost;
- It limits FEAP's ability to act separately in the interests of Growers;
- It transfers almost all operational controls to BlackTree, whilst leaving legal liability with FEAP.

Notwithstanding the limitations of the BlackTree Proposals, we appreciate they may come to represent the most logical path forward for Growers. This may be the case, for example, in the event of any adverse outcome from Growers' perspective of the March 2011 Appeal Hearing in relation to the Receivers' Application to seek approval to terminate internal leases.

It is our view we should continue to engage with BlackTree and the FEAGG in respect of their proposals where we remain concerned regarding aspects of them.

BlackTree has addressed the following concerns raised in our previous Report to Growers:

- The Banks claim to hold security over the current management agreement between Growers and FEAP. The BlackTree management proposals are in conflict with the Bank's asserted securities;
- BlackTree has made additional disclosures to Growers with respect to their proposals;
- BlackTree intend to take out Professional Indemnity Insurance to the extent of $10 million. In our view this quantum of cover in today's environment is regarded as minimal; and
- BlackTree have agreed that we as Administrators may seek Directions from the Court before the proposed Management Agreement can be executed to appoint BlackTree as the Managers of the 1999 to 2008 Schemes. The contemplated Directions relate to the Banks' claimed security position.

We consider that Growers should take into consideration the following factors when considering their vote at the forthcoming meetings:

- The requirement to pay a "break fee" or termination penalty to BlackTree if any other restructuring is accepted by Growers.
- The BlackTree Proposals are predicated on the assumption that 1999-2008 Growers fully fund the proposed on-going "Pay as You Go" contributions. As a matter of experience, 55% of contributions payable in "Pay as You go" 1995-2002 Schemes and 35% of voluntary contributions sought for the 2003-2009 schemes have been received in the Voluntary Administration and Deed Administration periods.

So Growers understand the likely contributions and returns from the Schemes, we have projected, using assumptions made in past reports, the cash flows for each of the Schemes under the BlackTree Proposal.

The schedule below summarises potential Grower Contributions under the BlackTree Proposals assessed against the projected Future Net Present Value ("NPV") of them based on future realizations. Growers in Schemes 1999-2002 should note the assessment treats past Contributions as "spent" costs in relation to future returns.

All Growers should note their projected NPV returns have been assessed on a discount rate of 9%. This effectively means that for 2007 and 2008 Growers, the Net Present Value of their returns, (after factoring in future Contributions), are projected to give rise to a negative return and a total loss of their original investment. Returns for Growers in Schemes 2005 and 2006 can, at best, be described as marginal.

Summary of FEA Plantations Projects 1999 to 2008 cash flows

Project	Scheme net cash flows	Maximum future funding requirement	Discounted Future Cashflow net of future funding (NPV)	Maximum future funding per woodlot	NPV woodlot (9.00% disc rate)
Project 1999	$88,283,925	-$9,006,003	$54,430,613	-$275	$1,663
Project 2000	$22,806,282	-$1,783,921	$15,050,013	-$294	$2,482
Project 2001	$10,138,972	-$1,117,791	$5,722,524	-$289	$1,480
Project 2002	$2,531,419	-$1,017,966	$1,061,998	-$837	$873
Project 2003	$10,962,040	-$4,307,464	$4,357,116	-$1,048	$1,061
Project 2004	$15,793,646	-$6,929,234	$4,687,939	-$793	$536
Project 2005	$14,350,949	-$17,455,012	$269,759	-$967	$15
Project 2006	$23,830,271	-$22,209,256	$1,102,621	-$1,039	$52
Project 2007	$12,313,939	-$31,543,742	-$6,236,949	-$1,882	-$372
Project 2008	$35,466,039	-$36,941,408	-$2,914,829	-$1,111	-$88

The following assumptions have been included in the cashflow forecast.

- The cash flows are based on the Woodstock model commissioned by BRI Ferrier. These assumptions have not been reconciled with the BlackTree output/pricing model;
- Modelling assumes all FEA Group owned properties must be retained due to internal lease arrangements. Only the most profitable external leases are maintained. Implicit is an assumption that unprofitable leases can be "disclaimed", where the ability of the individual Schemes to do so is problematic
- Assumes all litigation is resolved in favour of the Growers, and that a third party, (not Growers) pays for the plantation replanting. Should the litigation be resolved in favour of the Banks, projected cashflows would deteriorate considerably;

- Estimates of BlackTree fees;
- Assumes all Growers in all Schemes pay the required future contributions. A failure of one Scheme could lead, through default on the common leasing arrangements, to the collapse of the other Schemes. Additionally, should some Growers not contribute, funding will need to be found from other sources;
- Models assume long term prices for timber. Whilst we consider them reasonable, they are significantly higher than current pricing. The models are sensitive to pricing and volume changes;
- The assessment has not taken into account litigation costs which may be incurred in defending Growers' interests. These have the potential to be considerable;

5 COMMENTARY ON THE RFM PROPOSAL

The RFM Proposal in its current form provides a return to Growers which is potentially materially greater than the BlackTree Proposal, whilst resolving the current legal issues with the Banks and Receivers of FEA.

RFM proposes to create a long-term sustainable timber company from which Growers will receive regular dividend payments and the ability to redeem their investment. There are several risks with the implementation of the RFM Proposal, including the finalisation of due diligence, unconditional confirmation of funding and resolution of any potential Grower-member tax issues, all of which are being concurrently worked on as to their resolution.

The RFM Proposal contemplates that there will be two ongoing entities, which will comprise the assets of Schemes 1999 to 2009 and all of the presently owned FEA Group land planted to Schemes 1994 to 2009.

- RFM have offered to act as replacement RE for the Schemes 1995 to 1998 to provide a mechanism for timber to be harvested and proceeds returned to Growers.
- RFM Timberland ("Timberland") (currently known as Tasmanian Plantation Unit Trust, "TPUT", which was the FEA group land bank company) will retain the land and acquire the timber assets of the Group Schemes. Growers will hold 49% of Timberland, New Investors 49% and unsecured creditors 2%.
- A Harvest entity will lease the "timber" from Timberland for the purpose of harvesting the current trees, and hold the other assets of

FEA including SmartFibre and native forest assets. It will also selectively retain ownership of forests planted on externally leased properties. This entity will have the same ownership as RFM Timberland.

To achieve a restructuring of the Group, RFM intends to raise the following cashflow:

RFM proposed funding	
	$ Million
New Equity	
Institutional investors	70
Retail investors including Growers	15
	85
Additional sources of funds from:	
Sale of loan book (either sale or underwriting)	14
Sale of timber mill for (this has apparently occurred)	40
Sale of non core land & trees	64
New bank debt	100
Total Sources of Funds	**$ 303**
The funds will be used as follows:	
Repayment of bank debt	234
Transaction Costs, mainly stamp duty	35
Working Capital	34
Total Use of Funds	**$ 303**

The RFM Proposal includes the introduction of approximately $85 million in new equity and the provision of $100 million in new Bank finance to underpin a sustainable future for the businesses of the 1999-2009 Schemes. Growers will receive a direct equity interest in both the land and the timber and will not be required to provide future funding beyond the current requests made by FEAP of Growers.

The restructured entities will begin to generate positive cashflow in the second year of operation. Instead of Growers being required to wait until final harvest of their Scheme for a return, the new companies are anticipated to pay distributions to unit holders, including Growers, from available cash flow in the immediate future.

5.1 Benefits of the RFM Proposal

- $85 million in new equity plus asset sales significantly reduces gearing in the new entities;
- By combining timber and land into a single entity, Growers gain the benefit of any future increases in the value of the land;
- As borrowings are Bank funded, the interest cost to the entities is significantly lower than non-bank funding. This will increase the return to Growers over time;
- The long-term equity investors RFM will introduce have a long term view of the investment.
- Growers effectively sell their interest in the 1999-2009 Schemes for 49% of the units in Timberland (through a holding trust) and 49% of the equity in FEA. Growers therefore do NOT have to contribute further funding for Scheme costs

- Contributions made by Growers before transaction settlement are converted to equity in the new structure, benefiting those Growers who have supported their Schemes

5.2 Issues with the RFM Proposal

- **Split Group Structure** – This structure is designed to attract new equity. New investors acquire units in Timberland. The new investors are looking for a stable return backed by the value of the land bank. This is balanced by the fact that Growers and Investors will receive equal interests in both entities and therefore are able to benefit;

- **Sources of Equity** – RFM have negotiated to date with significant equity investors where no committed equity has as yet been received. RFM states this should happen once the Implementation Deed is executed, but in the interim a risk remains.

- **Bank Funding** – The requirement to repay all existing Bank Debt upfront significantly increases the amount of funding required. A new Bank facility is required to complete this transaction. While we understand provisional approval is in place, final approval will be dependent on completion of REFM's due diligence and valuations;

- **Transaction Costs** – RFM's costings have included $35 million for transaction costs. The majority of this relates to Stamp Duty. RFM consider the costs to be the worst case scenario. Any complete restructuring of FEA will incur a level of Stamp Duty.

- **Potential Personal Income Tax Liabilities For Growers** – Growers following investment of funds in FEA received a tax deduction. Depending on the final form of the proposed restructuring, it is possible that some personal taxable income liabilities will be generated. RFM are seeking expert advice on this issue and expect to either reduce or resolve this potential liability;

- **Break Fee** – Under limited circumstances a break fee would be payable by Schemes to RFM should Growers not accept the RFM Proposal or Growers accept another restructuring proposal.

5.3 Estimated Return to Growers

- RFM have modelled each of the Schemes' prospective Net Prospective Value cashflows before reconstruction, optimising them on the basis of the highest yielding properties. Their cashflow result is similar to the projections commissioned by BRI Ferrier.

- RFM believes that the Net Present Value of Schemes 1999-2009 is some $112,979,220 where they have attributed a value of $140,000,000 to the Growers' interests in respect of their Proposal. We regard this as a fair value for these assets. This value differs from our previous estimate of value of around $180 million, however it is consistent with the value of the current, agreed reduced estate.

- The BlackTree assessed value of the FEA Group estate planted to the 1999-2008 Schemes is $77 million.

MIS Project	MIS NPV ($)	RFM Offer ($)	RFM NPV (ha) ($/ha)	RFM Offer (ha) ($/ha)	RFM Offer (woodlot) ($/ha)
Project 1999	48,296,418	52,672,770	4,724	5,152	1,607
Project 2000	11,157,353	12,023,737	5,513	5,941	1,985
Project 2001	4,183,159	4,747,422	3,173	3,601	1,227
Project 2002	1,076,668	1,254,867	2,586	3,014	1,032
Project 2003	4,742,736	5,594,952	2,382	2,810	1,362
Project 2004	9,355,164	10,779,518	2,811	3,240	1,233
Project 2005	10,310,921	13,456,829	1,403	1,831	746
Project 2006	8,854,236	12,994,858	915	1,343	608
Project 2007	4,546,659	8,457,158	498	926	505
Project 2008	9,188,472	16,102,979	569	997	484
Project 2009	1,267,435	1,914,911	838	1,266	485
Total	**$ 112,979,220**	**$ 140,000,000**			

6 CONCLUSION

As Administrators, we are required to recommend to creditors (including Growers) which proposal provides the highest return. We also take into account the implementation risks and other legal risks associated with each proposal.

As Administrators, on comparison of the RFM and BlackTree Proposals, we recommend the RFM Proposal provides a better outcome for Growers. Both proposals have contingencies where on a side-by-side comparison RFM yields a better result.

In the absence of a better proposal, we recommend Growers and Creditors accept the RFM Proposal.

It is our view the BlackTree Proposals could in certain circumstances provide a fall-back position and should be progressed as a complement to the RFM Proposal should it fail to be implemented.

It is our view Growers should continue to, so far as possible, proceed to evaluate both proposals, continuing to evaluate each of them whilst contingencies are resolved, and without committing to either. Neither proposal is presently unconditional, however the RFM Proposal appears to reflect a systematically higher Net Present Value of return to Growers.

Consequently, we are of the view Growers should further adjourn the meetings of Growers. Should the RFM Proposal fail for any reason, the BlackTree Proposals provide for a potentially better return to Growers than the current circumstances may otherwise dictate.

7 BRI FERRIER KEY CONTACTS

All BRI Ferrier staff can be contacted on 02 8263 2300. For specific queries, please feel free to contact Ronnie Staub or Wilson Zeng.

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