

**FOREST ENTERPRISES AUSTRALIA LIMITED
(ADMINISTRATORS APPOINTED)
(RECEIVERS AND MANAGERS APPOINTED)**

BRI Ferrier

Business Reconstruction & Insolvency

**Second Meeting of Creditors
20 September 2010**



Agenda

- Introduction
 - Purpose of Meeting
 - General Introduction
- Background of Appointment
- Administrators Report to Creditors
 - Group Structure
 - FEA's Function
 - Growers' claim against FEA
 - Current MIS Schemes
 - Report As To Affairs
 - Group Consolidated Comparative Balance Sheets
 - Group Consolidated Comparative Income Statements

Agenda (continue)

- Administrator's Investigation
 - Solvency
 - Insolvent Trading
 - Bank Securities
 - Conclusion
- Scheme Reconstruction
 - Assessment on Scheme Viability
 - Picture of Harvesting
 - Court Proceedings – Leases
- Likely Returns to Creditors
- Administrators' Opinion and Recommendation
- Resolutions
- Questions

Introduction

Purpose of Meeting

- Purpose of Meeting
 - Review Company's business, property and affairs
 - Consider future of the Company:
 - Deed of Company Arrangement ("DOCA")
 - *None as yet formally proposed*
 - Administration Ends
 - *Inappropriate due to insolvency*
 - Liquidation
 - *Not as yet formally recommended*
 - Proposed Adjournment of Meeting
 - *Recommended for reasons detailed*

Introduction (Continued)

- Convening of Meeting – Notice dated 9 September 2010
- Proxies to be Tabled
- Quorum
 - “That there is a quorum present.”
- Time and Place
 - “That this meeting has been convened at a time, date and place convenient to the majority of persons entitled to receive notice.”

Introduction (Continued)

- Voting: Current proof is for voting purposes only. Creditors will ultimately be requested to prove for dividend purposes

- Voting Determination
 - Show of hand in first instance
 - Poll can be requested

- Administrators Independence Update
 - (Page 6 of Second Report to Creditors)

- Report to Creditors dated 9 September 2010
 - (To be taken as read)

- This Second Meeting of Creditors decides the future of the Company

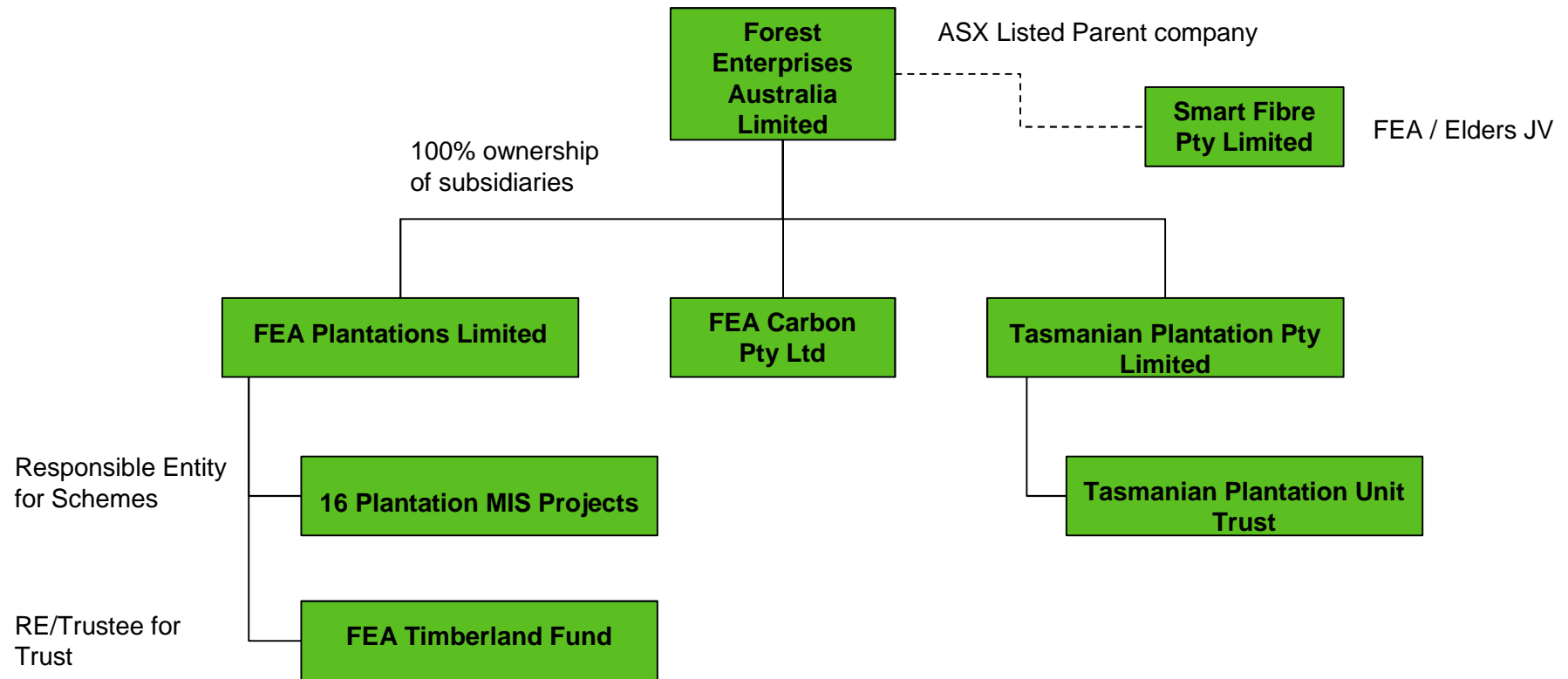
Background to Appointment

- Brian Silvia, Peter Krejci and Matt Muldoon of BRI Ferrier appointed Joint and Several Administrators to FEA Plantations Limited (“FEAP”) and Forest Enterprises Australia Limited (“FEA”) on 14 April 2010
- Matt Muldoon resigned on 12 May 2010 from both FEAP and FEA
- Tim Norman and Sal Algeri of Deloitte (“the Receivers”) appointed Receivers and Managers to FEA on 14 April 2010 and Receivers of assets of FEAP on 3 June 2010
- First Meeting of Creditors held 27 April 2010
- Committee of Creditors appointed to both FEAP and FEA
- Five Committee Meetings been held since formation



Administrators Report to Creditors

Group Structure



FEA's Function

- FEAP is Responsible Entity (“RE”) for 17 of which 16 forestry Managed Investment Schemes are still operational (“MIS’s” or “Schemes”)

- FEA had the following roles in respect of Schemes:
 - Land holder
 - Leased land from Tasmanian Plantation Pty Limited and sub-let to FEAP
 - Undertook forestry management under Head Management Agreement
 - Owned non-MIS operations, Smart Fibre and saw mill at Bell Bay
 - Financed some grower investments
 - Ability to raise capital as public listed company

Growers' claim against FEA

- Growers have contingent claims as Creditors for any loss caused by:
 - Reliance on any mistaken statements or omissions in Prospectus or Product Disclosure Statements (“PDS”)
 - Any failure by FEA group to perform contractual obligations in respect of MIS’s; and
 - Any breach of duties

- Growers have contingent claims against FEA because of FEA’s involvement in Scheme implementation and operation

Current MIS Schemes

Scheme	Investment Value \$	Number of Growers
1994	663,176.88	31
1995	835,576.26	42
1996	1,044,188.00	48
1997	1,806,261.60	80
1998	5,084,943.50	184
1999	59,612,056.50	2,295
2000	13,081,764.30	132
2001	7,020,002.55	275
2002	1,952,896.00	103
2003	11,297,605.00	485
2004	28,838,700.00	1,035
2005	59,565,000.00	1,836
2006	74,050,515.00	2,327
2007	63,721,350.00	1,817
2008	119,045,850.00	2,813
2009	16,312,750.00	565
	\$ 463,932,635.59	14,068

FEA

Report As To Affairs

As at 14 April 2010

Item	Book Value	Estimated Realisable Value
	\$	\$
Assets not specifically charged	NIL	NIL
Assets specifically charged		
Land	12,733,477	Not Disclosed
Buildings	17,448,474	Not Disclosed
Leasehold Improvements	11,633,144	Not Disclosed
Plant and Equipment - Sawmill Bell Bay	68,806,760	Not Disclosed
Standing timber in MIS projects	12,582,349	Not Disclosed
Loan Book Debtors	46,911,472	Not Disclosed
Trade Debtors	12,491,744	Not Disclosed
Receivable from Subsidiaries	229,297,410	Not Disclosed
Other 19 assets	34,520,198	Not Disclosed
	<u>\$ 446,425,028</u>	<u>Not Disclosed</u>
<u>Less:</u> Employee entitlements (priority creditors)	(3,021,932)	(3,021,932)
Amount owing and Secured under Debenture	(223,960,409)	(223,960,409)
Estimated Funds Available for Unsecured Creditors	<u>\$ 219,442,687</u>	<u>\$ Unknown</u>

FEA RATA

As at 14 April 2010

(Continued)

Item	Book Value	Estimated Realisable Value
	\$	\$
Estimated Funds Available for Unsecured Creditors (Cont.)	\$ 219,442,687	\$ Unknown
<u>Less: Unsecured Creditors</u>		
Aged Creditors balance	9,628,734	9,628,734
Elders Forestry	1,500,000	1,500,000
Lease Rentals	8,026,845	8,025,845
Other	3,306,037	3,306,037
	<u>\$ 22,461,616</u>	<u>\$ 22,460,616</u>
Contingent Assets estimated to produce (2008 Scheme Fraud Claim)	(1,761,051)	Unknown
<u>Less: Contingent Liabilities</u>	(108,480,709)	Unknown
Estimated Surplus / Deficiency Subject to Administration Costs	<u>\$ Unknown</u>	<u>\$ Unknown</u>
<u>Share Capital:</u>		
Issued & Paid Up - \$216,688,881		

FEA RATA

As at 14 April 2010

(Continued)

Item	Book Value	Estimated Realisable Value
	\$	\$
Note:		
1. <u>Other creditors</u>		
Sundry Creditors	1,281,118	1,281,118
Payable to FEA Carbon Pty Ltd	36,765	36,765
Tax Liabilities	498,494	498,494
Dividend Payable	35,031	35,031
Contingent Consideration on NTT Purchase	994,031	994,031
Debtor Balances	445,267	445,267
Sundry Creditors	1,281,118	1,281,118
Payable to FEA Carbon Pty Ltd	36,765	36,765
Asset Purchase Liability	15,331	15,331
	<u>\$ 3,306,037</u>	<u>\$ 3,306,037</u>
2. <u>Contingent Liabilities</u>		
Property Lease Liabilities	97,836,034	Unknown
Unearned Revenue	10,644,675	Unknown
	<u>\$ 108,480,709</u>	<u>\$ Unknown</u>

FEAP

Report As To Affairs

As at 14 April 2010

Item	Directors - RATA Book Value	Directors - RATA Estimated Realisable Value
	\$	\$
Assets not specifically charged	NIL	NIL
Assets specifically charged		
Trade Debtors	1,503,266	1,503,266
Prepayments	4,303,129	-
Accrued Revenues	16,559,263	Unknown
Cash at Bank	1,030,313	1,030,313
Other 10 asset classes	859,218	859,218
	<u>\$ 24,255,189</u>	<u>Unknown</u>
<u>Less:</u> Priority Employee Claims	-	-
Amount owing and Secured under Debenture	-	-
Estimated Funds Available for Unsecured Creditors	<u>\$ 24,255,189</u>	<u>Unknown</u>

FEAP RATA

As at 14 April 2010

(Continue)

Item	Directors - RATA Book Value	Directors - RATA Estimated Realisable Value
	\$	\$
Estimated Funds Available for Unsecured Creditors (cont.)	\$ 24,255,189	Unknown
<u>Less: Unsecured Creditors</u>		
Operating Leases	(97,836,034)	(97,836,034)
Forest Enterprises Australia Ltd - Inter-company loan	(1,376,872)	(1,500,000)
Other	(721,382)	(8,025,845)
	<u>\$ (99,934,288)</u>	<u>\$ (107,361,879)</u>
Contingent Assets estimated to produce	Unknown	Unknown
<u>Less: Contingent Liabilities</u>	Unknown	Unknown
Estimated Surplus / Deficiency Subject to Administration Costs	\$ Unknown	\$ Unknown
<u>Share Capital:</u>		
Issued & Paid Up - \$60,000		
Note: 1. Secured Bank Debt of \$223.96M is not shown as a liability.		
2. Other creditors includes:		
Trade Creditors	53,859	
Sundry Creditors	453,907	
Tax Liabilities	213,616	
	<u>\$ 721,382</u>	

FEA Group

Consolidated Comparative Balance Sheets

Item	FY 2006 30-Jun-06 \$'000	FY 2007 30-Jun-07 \$'000	FY 2008 30-Jun-08 \$'000	FY 2009 30-Jun-09 \$'000	Period Ended 28-Feb-10 \$'000 (Draft)
Current Assets					
Cash and cash equivalents	13,160	42,546	11,974	16,565	(1,089)
Receivables	40,571	50,650	74,196	24,154	30,285
Other financial assets	24,686	33,860	70,177	5,694	5,460
Inventories	2,165	2,957	8,665	12,377	9,082
Standing timber	1,162	851	1,922	2,467	2,615
Current tax assets	-	96	-	4,307	-
Other	1,772	2,246	4,392	5,121	6,300
Non-current assets classified as held for sale	-	-	2,900	107,380	31,216
Total current assets	<u>\$83,516</u>	<u>\$133,206</u>	<u>\$174,226</u>	<u>\$178,065</u>	<u>\$83,870</u>
Non-current assets					
Receivables	46,188	27,816	76,711	21,297	7,015
Investments accounted for using the equity method	3,105	3,985	5,209	3,599	3,761
Other financial assets	8,114	14,674	11,959	15,672	19,925
Standing timber	9,759	13,371	18,310	20,963	21,631
Property, plant and equipment	136,389	54,103	108,018	117,418	104,961
Investment property	-	185,797	271,767	231,470	301,079
Deferred tax assets	10,896	9,800	19,673	2,170	33,075
Other intangibles	-	-	12	1,801	1,006
Total non-current assets	<u>\$214,451</u>	<u>\$309,456</u>	<u>\$511,659</u>	<u>\$414,390</u>	<u>\$492,453</u>
Total assets	<u>\$297,967</u>	<u>\$442,752</u>	<u>\$685,885</u>	<u>\$592,455</u>	<u>\$576,323</u>



FEA Group

Consolidated Comparative Balance Sheets (Continued)

Item	FY 2006 30-Jun-06 \$'000	FY 2007 30-Jun-07 \$'000	FY 2008 30-Jun-08 \$'000	FY 2009 30-Jun-09 \$'000	Period Ended 28-Feb-10 \$'000 (Draft)
Current liabilities					
Trade and other payables	38,201	48,075	102,216	37,529	24,024
Short term borrowings	88	-	2,044	-	-
Current portion of long term borrowings	1,243	30,438	2,109	208,349	214,700
Other current financial liabilities	175	714	1,056	1,344	1,260
Current tax payables	4,536	-	10,281	-	-
Other current liabilities	36,348	33,563	69,539	30,036	11,292
Total current liabilities	<u>\$80,591</u>	<u>\$112,790</u>	<u>\$187,245</u>	<u>\$277,258</u>	<u>\$251,275</u>
Non-current liabilities					
Long term borrowings	11,531	11,824	137,668	1,534	1,503
Other non-current financial liabilities	907	1,102	344	10,139	6,985
Deferred tax liabilities	15,626	26,491	37,234	9,918	36,039
Other non-current liabilities	2,982	2,413	1,854	2,301	949
Total non-current liabilities	<u>\$31,046</u>	<u>\$41,830</u>	<u>\$177,100</u>	<u>\$23,892</u>	<u>\$45,477</u>
Total liabilities	<u>\$111,637</u>	<u>\$154,620</u>	<u>\$364,345</u>	<u>\$301,150</u>	<u>\$296,752</u>
Net assets	<u>\$186,330</u>	<u>\$288,132</u>	<u>\$321,540</u>	<u>\$291,305</u>	<u>\$279,571</u>

FEA Group

Consolidated Comparative Balance Sheets (Continued)

Item	FY 2006 30-Jun-06 \$'000	FY 2007 30-Jun-07 \$'000	FY 2008 30-Jun-08 \$'000	FY 2009 30-Jun-09 \$'000	Period Ended 28-Feb-10 \$'000 (Draft)
Total assets	297,967	442,752	685,885	592,455	576,323
Total liabilities	111,637	154,620	364,345	301,150	296,752
Net assets	<u>\$186,330</u>	<u>\$288,132</u>	<u>\$321,540</u>	<u>\$291,305</u>	<u>\$279,571</u>
Equity					
Share capital	114,113	179,627	179,701	179,804	216,689
Reserves	24,529	4,210	7,368	560	3,787
Retained earnings	47,688	104,295	134,471	110,109	58,069
Outside equity interest	-	-	-	832	1,026
Total Equity	<u>\$186,330</u>	<u>\$288,132</u>	<u>\$321,540</u>	<u>\$291,305</u>	<u>\$279,571</u>

FEA Group

Consolidated Comparative Income Statements

Item	Year Ended 30-Jun-06 \$'000	Year Ended 30-Jun-07 \$'000	Year Ended 30-Jun-08 \$'000	Year Ended 30-Jun-09 \$'000	Period Ended 28-Feb-10 \$'000 (DRAFT)
Revenue	84,892	101,656	139,262	152,487	77,189
Other income	178	18,653	25,879	285	6,356
	<u>\$85,070</u>	<u>\$120,309</u>	<u>\$165,141</u>	<u>\$152,772</u>	<u>\$83,545</u>
Share of profits of associates and jointly controlled entities accounted for using the equity method	(247)	880	1,224	641	162
Forestry cost of goods sold	(8,174)	(9,487)	(17,243)	(23,899)	(15,949)
Saw & chip milling cost of goods sold	(3,815)	(8,606)	(13,100)	(44,192)	(34,281)
Forestry services expenses	(24,876)	(28,507)	(34,420)	(51,247)	(22,133)
Forestry investment expenses	(9,617)	(11,116)	(22,300)	(12,502)	(5,713)
Overhead expenses	(7,235)	(9,621)	(14,098)	(20,290)	(10,142)
Finance costs	(1,070)	(2,070)	(4,118)	(19,348)	(14,303)
Impairment of non-current assets	-	908	-	(2,806)	(37,795)
Profit / (loss) before income tax expense / (benefit)	<u>\$30,036</u>	<u>\$52,690</u>	<u>\$61,086</u>	<u>(\$20,871)</u>	<u>(\$56,609)</u>
Income tax (expense) / benefit	(9,056)	(15,419)	(17,519)	6,733	4,646
Net profit / (loss) for the year	<u>\$20,980</u>	<u>\$37,271</u>	<u>\$43,567</u>	<u>(\$14,138)</u>	<u>(\$51,963)</u>
Attributable to:					
Equity holders of the parent	20,980	37,271	43,567	(14,229)	(51,963)
Minority interest	-	-	-	91	0
	<u>\$20,980</u>	<u>\$37,271</u>	<u>\$43,567</u>	<u>(\$14,138)</u>	<u>(\$51,963)</u>



Administrators' Investigation Solvency

- Unable to ascertain date of insolvency due to time constraints, limited access to information and Group complexities

- Following matters suggests a date of insolvency shortly before Administrators appointment (March 2010):
 - Absence of dishonoured cheques
 - Statutory and tax obligations up to date
 - Board resolution confirming solvency – 5 March 2010
 - Group cash flow forecast projected working capital surplus until June 2010
 - Secured Creditors conditional suspension of interest cover and debt service cover ratios on 31 December 2009
 - Successful capital raising in September – November 2009 of \$39M
 - Creditors generally paid on normal trading terms

Administrators' Investigation Solvency

- Following matters suggests an earlier date of insolvency (September 2009):
 - FEA indicated funding needs beyond existing facilities (Early 2009)
 - Audit Report queried going concern in June 2009
 - Banks' requirement for security suggests concerns for business (January 2009)
 - Investigating Accountant appointed (July 2009)
 - Deterioration of working capital ratio (since June 2008)
 - Directors' legal advisors warned potential liability for insolvent trading (end of 2009)

Administrators' Investigation Insolvent Trading

- Administrators believe Company became insolvent between September 2009 to March 2010

- Correspondence between directors and Banks suggest directors believed the Companies were solvent because:
 - FEA Group could continue to trade with Bank support
 - FEA Group could meet funding commitments through timely realisation of assets and restructuring of MIS commitments

Administrators' Investigation Bank Securities

- FEA Group granted cross-collateralised securities in April and May 2009 for a Syndicated Facility Agreement
- Broad security over a range of assets (including MIS assets)
- Bank and Receivers currently contend growers' ongoing MIS contributions and related scheme receipts are subject to security – disputed
- Administrations view is bank securities does not extend to MIS assets and rights derived from them

Administrators' Investigation Conclusion

- Within the time constraints imposed by the Act, we have not identified any material recoveries likely to be made in a liquidation
- Further investigation by a Liquidator may reveal additional recoverable assets – nothing identified to date

Scheme Reconstruction

- Administrators currently working on Scheme reconstruction proposals
- Four potential purchasers (2 of which are advanced – 1 put to the Banks)

Reconstruction Proposal

- Current Proposal before the Banks provides:
 - Schemes 1994 – 1998 “Fast Track” harvested
 - Schemes 1999 – 2009 Pooled on a pre-determined basis
 - Significant equity contribution;
 - Fully funded business plan;
 - Simplified and new management structure;
 - Reorganised corporate structure;
 - Resolves current litigation on foot;
 - Maximises returns to all stakeholders by a Going Concern realisation as opposed to Liquidation.
 - If discussions with stakeholders are successful then a detailed Report and analysis will be provided to stakeholders to vote on.

Reconstruction Proposal

- Successful reconstruction may:
 - Reduce growers' claim against the Group and maximise return to all class of creditors
 - Substantially relieve FEA from obligations under external leases
 - Opportunity to increase realisable value of freehold land

Pictures of Harvesting Progress



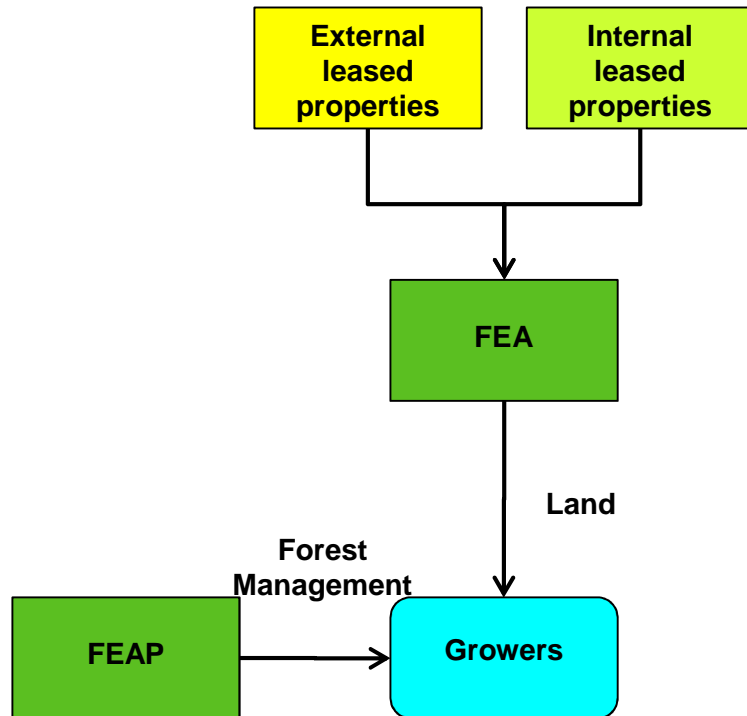
Pictures of Harvesting Progress



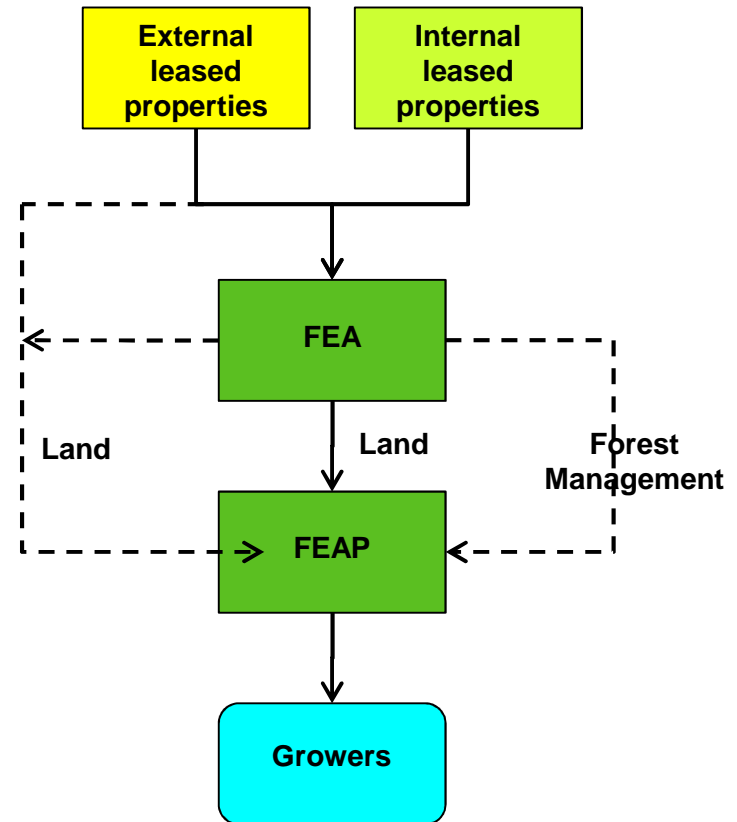
Court Proceedings – Leases

Historical MIS Operation

Pre 2000



Post 2000



Court Proceedings

- Receivers Application 1 – Terminate external leases for Schemes 1996 to 1999:
 - FEA (not FEAP) was the leasee in most instances;
 - Receivers disclaimed lease performance obligations, including rental payments and forestry maintenance obligations.

- Receivers Application 2 – Terminate internal leases for all schemes:
 - Based on assertions:
 - Rent not paid
 - Maintenance not completed
 - Believes future rental obligation will not be paid

- Administrators' Response – currently before the Court
 - Defence issues confidential

Liquidation Dividend Estimates

- Secured Creditors:
 - Unknown

- Employees:
 - Take priority over floating component of secured assets
 - Debts to be paid by Receivers

- Unsecured Creditors (including growers contingent claims)
 - No known source of dividend funds at present. Dividends could be nil.

Administrators' Opinion and Recommendation

- In a DOCA scenario:
 - Currently no proposal capable of acceptance
 - Adjournment recommended to allow for formulation of DOCA Proposal

- Administration Ends:
 - The company would still be insolvent and it is unrealistic to contemplate returning it to its directors

- In Liquidation scenario:
 - Allows for more thorough review of business and affairs and further investigation of antecedent transactions – no “issues” currently identified
 - Immediate liquidation may severely limit and possibly prevent, any reconstruction of the Company and MISs

Administrators' Opinion and Recommendation

- **Recommendation**

“In accordance with requirements of Section 439A(4)(b) of the Corporation Act 2001, the Administrators have formed an opinion that the Creditors should vote that this meeting of creditors be adjourned for a maximum 45 business days from 20 September 2010 to 19 November 2010”

Resolution:

Adjournment of Second Meeting of Creditors

- “That this meeting of creditors be adjourned to a date and location to be determined by the Administrators for a maximum 45 business days from 20 September 2010.”

Please note the Administrators will consider the views of the Committee of Creditors if they believe the meeting should be held earlier

Questions