

Responsible Entity's Report to Growers

Tasmanian Forests Trust No 4

FEA Plantations Limited
(Subject to Deed of Company Arrangement)
(Receivers appointed)
CAN 055 969 429

9 December 2011

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1 EXECUTIVE SUMMARY

This is the 2010-2011 Annual Report to Grower-Investors in the Tasmanian Forests Trust No 4 Managed Investment Scheme (“The Scheme”) by its Responsible Entity, FEA Plantations Limited. This Report should be read in conjunction with the Deed Administrators’ Report to Creditors and Growers dated 16 September 2011.

The purpose of this Report is to provide Growers with:

- An update on the financial position of the Scheme;
- An estimate of the financial return to Growers from Scheme assets;
- Information relating to the action being taken by the Administrators to protect the interests of Growers and the potential impact of the Receivers actions on behalf of the Banks; and
- An explanation of the current round of Grower invoicing.

Your Scheme comprises:

- 30.4 planted hectares (15%) of externally leased land. This land is leased from landlords who are separate from the Forest Enterprises Australia Ltd (FEA) Group and not subject to any claims by the Receivers or Banks; and
- 173.9 planted hectares (85%) of internally leased land. This land is leased from FEA Group companies and its Receivers claim to have taken possession of it. That assertion is the subject of proposed legal proceedings by the Deed Administrators on behalf of Growers.

Important highlights to note regarding your Scheme for the year ended 30 June 2011 are:

- Maintenance has continued on all external and internal leased properties within the Scheme;
- Monitoring of the Schemes trees has shown that they have had a strong year of growth with no effects from fire or insects;
- Insurance has been maintained to date;
- Rent for external properties has been paid;
- Internal rent due to FEA Group companies has been prepaid based on the records of FEAP;
- We have been in discussion with external landlords to ensure harvesting can take place; and
- Most Growers have made their compulsory contributions to the Scheme, whilst a minority are being pursued for payment.

Our Report to Creditors dated 16 September 2011, outlined the Receivers’ actions seeking to terminate leases within the FEA Group. They allege non-payment of rent due by later FEA Group Schemes (2003 to 2009) and the failure to maintain them constitutes a cross-default of all leases. Separately the Receivers have alleged Growers for the Scheme years 1995 to 1999 are in default as they have not paid their rent directly to FEA. The Deed Administrators are of the view (supported by legal advice) the Receivers are NOT entitled to terminate the internal leases within your Scheme, and Growers are entitled to the benefit of harvest. (Refer to Section 9.1 of this Report).

To provide Growers with comfort in relation to future rental payments, the Deed Administrators will deposit all future Grower receipts for internal rent into the DLA Piper (solicitors) Trust Account. These funds will be held pending resolution of litigation with the Receivers.

Growers must appreciate the entitlement to occupy Scheme land until harvest depends on them, through the Responsible Entity, paying the rent required under the respective leases and maintaining the land and trees. It is necessary in the circumstances for all Scheme Growers to contribute to fund the Scheme (including 'prepaid' Growers) as a failure to do so will result in the failure of your Scheme.

All Growers in this Scheme are being invoiced for ongoing costs, including previously 'prepaid' Growers. The Scheme previously relied on support from FEA and FEAP to operate, however that support is no longer available. 'Prepaid' Growers historically received a substantial discount on the cost price of their investment where the benefits of their payments have long been fully utilised by FEA and FEAP. Additionally the costs presently being incurred to protect the Scheme were not included in the original prepayment. In order for your Scheme to continue to operate it is essential all Growers contribute to the ongoing costs.

To preserve the rights of the Scheme and its Grower Investors, the Deed Administrators are preparing to file an Application seeking Relief from Forfeiture. The Receivers filed an Application in the Supreme Court of Victoria on 30 September 2011 seeking Directions entitling them to terminate the Schemes' internal leases and accompanying Forestry Right Deeds. We as Deed Administrators are pursuing an Application for your Relief against Forfeiture, with filing due by 4 February 2012 unless extended by the Court. We note the Receivers have previously twice sought Directions entitling them to terminate the leases in the Federal Court, which was unwilling to give the Directions sought.

Whilst the matter of internal leases is being pursued, the Scheme will continue to move forward with the harvest of the trees on externally leased land.

Last year, we foreshadowed several other FEA Group Managed Investment Schemes would probably be the subject of a reconstruction proposal by RFM. The RFM proposal would have resulted in it replacing the Banks as the internal landlord, and would have assisted your Scheme in the harvest of trees. The proponents of that proposal failed to meet certain performance benchmarks. Whilst a variation of the RFM reconstruction proposal has been foreshadowed it may not proceed before the hearing of the Receivers' current Application.

We report in more detail below.

2 INTRODUCTION

This Annual Report to Grower-Investors in Tasmanian Forests Trust No 4 is made by FEA Plantations Limited (Subject to Deed of Company Arrangement) (Receivers Appointed) (“FEAP”) its Responsible Entity. The Scheme is often referred to as the ‘FEAP 1996 Scheme’. This Report has been prepared by Brian Silvia and Peter Krejci of BRI Ferrier, the Deed Administrators of FEAP, and is our Second Annual Report and our third specific scheme related Report to Growers. Our previous reports are available from our website:

<http://www.briferrier.com.au/downloads/ForestEnterprisesAustraliaGroupofCompanies/FEAP-Report-to-Growers-for-Tasmanian-Forests-Trust-No-4-1996-MIS.pdf>

and

<http://www.briferrier.com.au/downloads/ForestEnterprisesAustraliaGroupofCompanies/FEAP-Second-Growers-Report-1996.pdf>

We report on the background to the Scheme; events in the past year; and the effect of the external Administration of the Responsible Entity and of related members of the Forest Enterprises Australia Group.

The Scheme has been adversely affected by disagreement on a number of issues between the Deed Administrators and the Receivers, Controllers and Receivers and Managers of related companies, in particular Tasmanian Plantations Pty Limited (‘TasPlant’), FEA, partners in the firm Deloitte, concerning the rights and duties of FEAP in respect of land occupied by this and fourteen other Managed Investment Schemes established by the FEA Group. That disagreement resulted in correspondence to many Growers in August 2011 from both ourselves and Deloitte concerning payment of lease and maintenance fees. A copy of our correspondence can be viewed at:

<http://www.briferrier.com.au/downloads/ForestEnterprisesAustraliaGroupofCompanies/FEAP-1995-1999-Circular-to-Growers.pdf>

and

<http://www.briferrier.com.au/downloads/ForestEnterprisesAustraliaGroupofCompanies/FEAP-1995-1999-Circular-to-Growersb.pdf>

The issues the subject of disagreement have also been the subject of several Decisions by the Federal Court, referred to below.

3 BACKGROUND TO SCHEME

The FEAP 1996 Scheme involves properties of approximately 204.3 planted hectares. Of these, properties comprising 173.9 hectares are owned by FEA and TasPlant (the ‘Internal Land’) and properties comprising 30.4 hectares are leased from external landlords (the ‘External Land’).

All the plantations are in Tasmania and are sub-divided into 520 woodlots. Some Grower-Investors are obliged to pay annual Rent and Maintenance contributions in respect of the woodlots, whilst the

remaining were 'prepaid' at establishment. Funds relating to 'prepaid' Growers have not been available to the Deed Administrators (either when appointed Voluntary Administrators or more recently as Deed Administrators) as the subject monies had been expended 'years ago' by the FEA Group.

Whilst Grower-Investors own the trees planted on their woodlots, the Scheme envisages the Responsible Entity harvesting the timber on all the plantations, selling it and subsequently distributing the net proceeds to Growers in proportion to their relative investment. Growers' contributions received for Rent and Management are pooled to meet its funding requirements.

4 SCHEME FINANCIAL PERFORMANCE

Annexure 'A' is a Summary of Receipts and Payments in respect of your Scheme for the period of Administration to 30 September 2011. Annexure 'B' is a future projection of receipts and payments for your Scheme, including a division between Internal Land and External Land. Projected outgoings include provisions for future legal costs of various proceedings which have been or will be commenced to preserve your investment including a provision for Security for Costs in relation to one of the proceedings.

Income projections include future Grower contributions where they have been 'discounted' allowing a provision for the possibility of payment default by some Growers. Approximately 6% of all woodlots in the FEA Schemes 1995 to 2002 are owned by FEA, which has failed to pay grower contributions during the course of the Voluntary and Deed Administrations, but where the obligation to pay 100% of all Rent and Maintenance costs remain. Unfortunately the failure of individual Growers to pay their respective contributions has had the effect of jeopardising the successful continuation of the Scheme.

Should individual Growers fail to pay their respective contributions, there will, regrettably, be a need to commence proceedings to ensure those who are obliged to pay do in fact pay. The result could be that Growers who continue to fail to pay their contributions will forfeit their woodlots which will be then be sold in an effort to recover outstanding contributions. Any unpaid balance will be sought to be recovered by us.

It is appreciated Growers who meet their contribution obligations punctually may, in effect, contribute disproportionately to the maintenance of the Estate and the Scheme. To that extent it is intended, on a final accounting, that disproportionate contributions be recognised and adjusted in terms of distributions.

4.1 ESTIMATED RETURNS TO GROWERS

Annexure B sets out a projected base case of future Scheme cash flow projections for Growers. The projection assumes:

- Separation of estimated cash flows between Internal and External owned land;
- Reduction in Scheme revenue to take into account the recent decline in timber prices in Tasmania;
- Costs of the litigation against the Receivers;
- Success in the Application for Relief from Forfeiture of Internal owned Scheme land;

- ▲ The Scheme requirement to pay ongoing rent for Internal Land; and
- ▲ Growers' contributions in accordance with the current invoices rendered.

Based on the various assumptions detailed above the return to Growers is estimated to be:

	Internal Leased Properties (\$)	External Leased Properties (\$)	Total Leased Properties (\$)
Estimated Revenue	2,199,346	334,992	2,534,338
<u>Less:</u> Estimated outgoings	<u>(450,172)</u>	<u>(74,572)</u>	<u>(524,744)</u>
Estimate Net Income	<u>\$1,749,174</u>	<u>\$260,419</u>	<u>\$2,009,593</u>
Units Issued			520.37
Anticipated Future Distributions per Unit			<u>\$3,862</u>

We have also projected Grower returns on the basis the price for timber in Tasmania returns to long term/historical levels. The outcome of that change in projected assumption is:

	Internal Leased Properties (\$)	External Leased Properties (\$)	Total Leased Properties (\$)
Estimated Revenue	3,210,611	481,155	3,691,766
<u>Less:</u> Estimated outgoings	<u>(450,172)</u>	<u>(74,572)</u>	<u>(524,744)</u>
Estimate Net Income	<u>\$2,760,439</u>	<u>\$406,582</u>	<u>\$3,167,022</u>
Units Issued			520.37
Anticipated Future Distributions per Unit			<u>\$6,086</u>

The above estimates demonstrate significant value exists in the trees for the benefit of Growers. These projections are subject to final timber pricing and actual costs.

These return projections do not take into account the dynamics that may occur in the Tasmanian timber market should the proposed Gunns Pulp Mill proceed, as is currently expected.

Establishment of the Gunns Pulp Mill would, we expect, require them to buy timber from sources additional to the plantations currently under their control. This in turn may create an opportunity for the timber in your Scheme to be sold to Gunns, thereby avoiding the transport cost of \$10 to \$15 per tonne historically incurred in shipping woodchip to Japan for processing.

Whilst we doubt all of the transport cost savings would be reflected in an improved timber price, the establishment of the Gunns Pulp Mill will, in all probability, result in a significant increase in the price for the timber over time. Establishment of the mill could have the effect of significantly increasing the base case realisation projections for each of the FEAP Managed Investment Schemes whose product may ultimately be sold to that processing facility.

The projected Grower returns do not take account of the possibility of reforestation obligations in relation to Internal owned land, although the reforestation obligation which exists in relation to one external property has been factored into the estimated Grower returns.

Growers will recall there has been and continues to be disagreement between us and the Receivers as to the obligation to fund the cost of any reforestation. Forest Practices Plans (“FPPs”) granted by Forestry Tasmania require reforestation on clearfall. This obligation arose as a consequence of FPPs being lodged by FEA in its former role as Manager for FEAP, where, until the failure of the FEA Group, it was unknown to Growers, and had, it seems, been thought by the FEA Group likely to be borne by investors in future Managed Investment Schemes on the subject land.

In our view, the cost of reforestation was not part of the ‘bargain’ struck by investors with the FEA Group. In the past, contractually, to the extent to which reforestation obligations existed, its cost was borne by FEA under the terms of a ‘Head Management Agreement’ between it and FEAP. That Agreement was terminated by the Receivers immediately after their appointment. Notwithstanding the existence of the reforestation obligation under the FPPs, the basic relationship terms between FEAP, TasPlant and FEA are those established under the 2000 Standard Form of Lease, the “2003 Master Lease” (potentially applicable to properties after 2003, and thus not to this Scheme) and the Deed of Variation executed 23rd December 2009.

None of the subject leases imposed an obligation on FEAP to reforest following clearfall harvest. To the extent the leases deal with the duration of Growers occupation of the subject properties, they all provide they terminate on clearfall harvest. There is neither an obligation under the leases to reforest, nor, indeed, a capacity to do so. We contend the reforestation responsibility attaches to the owner of the land being FEA or TasPlant.

It should be noted FPPs can only be lodged with the consent of the landowner, so that the obligation to reforest was known to him when lodged. In our view, if a lease entered into by the owner of the land included terms providing for its termination on clear fall, the Lessee has no reforestation obligations, and that responsibility falls to the landowner.

5 STATUS OF VARIOUS RESTRUCTURING PROPOSALS

The Administrators continue to work with two potential investors groups, in addition to consensual realisation discussions with the Banks/Receivers. We remain hopeful of concluding a transaction with one of the parties, however significant execution risks continue to exist.

Successful execution of one of the restructuring proposals will remove risks attaching to the continuing legal proceedings commenced by the Receivers. Each proposal has been structured by its proponent differently, and could result in different financial outcomes for each Scheme. Furthermore the timing of Grower returns is different.

Detailed below is the current status of each of the restructure proposals:

5.1 INVESTMENT BANK PROPOSAL

A proposal has been received from an Investment Group to acquire the Banks' debts and restructure the various Schemes established by the FEA Group.

For your Scheme, this would entail it continuing until harvest where you remain obliged to pay rent etc; to the new investor. The Scheme would be modified accepting a 'capped' contingent reforestation obligation and Growers would be partly compensated by the cancellation of the FEA-owned Grower woodlots in the Scheme thereby increasing the value of the remaining woodlots.

Under this proposal it is projected Grower returns would be in line with the estimates projected in Section 4.1 above. The advantage of this proposal is the removal of risks which exist in relation to the current legal proceedings.

The proponent of this proposal is currently discussing it with the Banks. The Banks' willingness to sell their debt is required for this restructure proposal to be implemented. Furthermore the proposal is subject to due diligence and valuations before final commitment.

5.2 RFM REVISED PROPOSAL

RFM is presently working with their backers intending to submit a revised offer for the Schemes including 1996 to the Banks. The structure of the revised offer has not been finalised where its main elements are intended to include acquisition of the Banks debts and the progressive sale of the FEA owned Estate.

Under this proposal, the Internal owned land for this Scheme would be sold, with a share (to be deferred) of the sale proceeds of the land and trees being distributed to Growers. Trees on External owned land would be harvested and sold for the benefit of Growers.

This proposal could have benefits for Growers depending on the priority return required by the incoming investor. We have advised RFM and their investors we will not recommend any proposal which does not fairly compensate Growers for the sale of the Internal owned trees.

5.3 DISCUSSIONS WITH BANKS/RECEIVERS

Over the last few weeks we have held preliminary discussions with the Banks/Receivers to explore whether an agreement can be reached to sell the land and trees together with a sharing of proceeds between the Banks and Growers. The discussions are at an early stage; however both parties have approached them in good faith. We expect the discussions will continue over the next few weeks where we remain hopefully an outcome can be reached which enhances the interests of all parties.

The discussions with the Banks/Receivers contemplate the sale of FEA Group assets including trees planted on Internal owned land over a period of time intended to maximise the realisable value of the assets. Sale proceeds would be a distributed based on an agreed formula between the Banks, Growers and FEA unsecured creditors. Trees on external land would be harvested with timber sale proceeds distributed to Growers.

The return to Growers under this proposal as currently formulated is linked to the values realised on the sale of individual assets. A well structured sale, with appropriate safeguards, will help maximise sale prices achieved.

6 GROWER INVOICING

Growers were invoiced in June 2011 for the normal Scheme costs on account of the period 1 July 2011 to 30 June 2012. Growers were invoiced one of two amounts, reflecting whether they had prepaid Rent and Maintenance contributions when making their investment, or had agreed to make ongoing contributions. These payments are normally tax deductible expenses for Growers. We continue to press Growers who have failed to pay to date.

The Executive Summary of the Report mentioned that FEAP is now invoicing Growers for each of the Schemes, including 'prepaid' Growers. Ongoing contributions from all Growers are required to ensure the viability of the Schemes.

So as to provide Growers with comfort in relation to rental payments, the Deed Administrators will pay the balance of rental payments received (after payment of External rent due) into the DLA Piper Trust Account to be held pending resolution of the dispute with the Receivers.

In addition to operational Scheme expenses, it is now also necessary to invoice Growers for the legal and administration costs of the Scheme. Significant costs have been incurred, and are projected to be incurred, in defending the rights of the Growers to harvest their trees. This "once off" invoice includes the projected cost of all proceedings to bring this matter to conclusion, rather than being an interim invoice. The payment of legal and administrative fees is voluntary, however it is not possible for the Deed Administrators to continue to work for the benefit of Growers into the future without Growers contributing to these costs. Growers as a direct cost have not paid any Administration remuneration to date.

It should be noted that this invoice equates to 8.6% of the projected ultimate return from your Scheme. Furthermore, in the event the Receivers are successful in denying the Growers access to their trees on the internally owned land, the estimated income from the external trees will total \$500 per Grower Lot.

Growers in contributing to the ongoing funding needs of the Scheme should appreciate that they will ordinarily be entitled to a tax deduction for their contributions, which reduces the tax effective cost.

7 'BACK UP' FUNDING ARRANGEMENTS FOR SCHEME GROWERS

A minority of Growers, including the FEA Receivers, have not paid contributions due by them. This has the potential to cause the Schemes to be unable to fund future costs, in the process prejudicing the investment of all Scheme members.

To ensure your Scheme is fully funded, we are offering all Growers in your Scheme, and those in the 2003 to 2009 Schemes, the opportunity of providing additional funding which will be 'lent' to the Scheme. This arrangement will only be used to fund any shortfall in Grower contributions; being repayable in priority to any other Grower distributions.

This 'backup' funding arrangement works as follows:

- ▲ Growers contribute additional funding at a rate of \$100 per Grower lot;
- ▲ Funds received are to be held in DLA Piper's Trust Account on interest bearing deposit pending disbursement;
- ▲ Individual Scheme funding shortfalls are to be 'financed' from the general funding pool established and held in the DLA Piper's Trust Account;
- ▲ Contributions lent to the Scheme are to be repaid in priority to Growers distributions together with interest calculated at 20% per annum. Interest received from all sources will be proportionately distributed to funding Growers;
- ▲ Repayment of the funding contributions is limited to the assets of the Schemes to which money is 'lent'; including the benefits of the sale of timber from External owned Land and the outcome of litigation; and
- ▲ Funds held in the DLA Piper Trust Account will be distributed (in time) proportionately to funds advanced by Growers.

This Grower funding arrangement has the benefit of protecting the optimised value of each of the Schemes for Growers benefit as well as providing priority repayment to those Growers who contribute additional funding to their Scheme, or those 2003 – 2009 Growers who contribute funding to the earlier Schemes. FEAP as the Responsible Entity will fully document the loan agreements to reflect the intentions expressed above.

Those Growers who are prepared to contemplate additional funding should complete Annexure 3 to clearly identify their willingness to provide it. The form once completed and returned by you to the Administrators will result in an invoice for such funding being sent to those of you who are prepared to contribute additional funding.

8 SUMMARY OF ADMINISTRATORS' EFFORTS IN GROWERS' INTERESTS SINCE APPOINTMENT

Since our appointment 18 months ago we have developed and executed strategies to maximise the return to Growers and other creditors. We have negotiated with landlords, harvesting companies, government offices and potential purchasers of the land and timber.

In addition to our statutory duties of investigation, reporting to creditors and advising at meetings as appropriate, we have also responded to a number of litigation proceedings commenced by the Receivers in the Federal Court in Melbourne with the intention of protecting Growers' interests. Recently, we have filed an Application for Special Leave to Appeal against one of those decisions which we regard as adverse to Growers' interests to the High Court of Australia. We have also foreshadowed proceedings being commenced to protect Growers interests in the FEAP 1996 Scheme against forfeiture of this internal leased land.

Together with the Banks, we agreed in early 2011, to enter into a Forbearance Agreement, under which a potential purchaser, RFM, proposed to recapitalise FEA by repaying the Banks' debt through a capital raising and offering unsecured creditors and Growers an equitable return on their investment. This proposal did not proceed.

Notwithstanding the Forbearance Agreement, the Receivers have, on behalf of the Banks, continued to contest many of our actions as Voluntary Administrators and lately as Deed Administrators.

The Receivers issued default and lease termination notices during August 2011 in respect of all Internal owned land, claiming monetary default for non-payment of rent and non-monetary default based on an alleged failure to maintain properties and because of Receivership. These notices, if effective, would enable the Receivers to deprive Growers of their interests in their timber and through FEAP the right to occupy the Internal Land on which most of the Scheme trees are planted. The notices do not affect land leased from landlords other than FEA that is 'External Land'. For reasons previously advised to Growers we are advised good grounds exist to reverse the Receivers actions where they now seek endorsement of them by further Application to the Court.

9 CURRENT POSITION

9.1 INTERNAL LEASES

The Internal Land occupied by the FEAP 1996 Scheme was originally leased to Growers by FEA which leased most of that land from TasPlant. In 2000 the Scheme was restructured such that FEAP became the Lessor to Growers, where they were given Forestry Right Deeds to protect their interests.

The Internal component of the Scheme is held by FEAP under a lease entered into in 2000. FEAP, at the request of the Banks' lawyers, signed a Deed of Variation in 2009 which varies the rent payable under the 2000 lease. The effect of these changes was to increase the rent said to be due to the landlord by FEAP beyond that payable by Growers to FEAP under the Scheme. We contend the Deed of Variation was, if effective, prejudicial to the interests of the Scheme and to the interests of the Responsible Entity, and is therefore liable to be rescinded by the Court. Prior to the appointment of any insolvency practitioners to the FEA Group the viability of your 1996 Scheme had been 'under-pinned' by:

- ▶ Concessional leasing arrangements between FEA and FEAP for internal land up until 23 December 2009 when FEAP had no current obligation to pay rent. Indeed, no rent was charged after this date until after the Receivers appointment in April 2010. A range of arguments exists to say that even if rent is due that substantial prepayments of rent exist (for a variety of reasons) and furthermore FEA has failed from possibly since establishment of the Scheme to pay rent and contributions due by it.
- ▶ The FEAP/FEA Head Management Agreement for maintenance of the estate under which FEA was obliged to maintain it at a 'peppercorn' cost. The Receivers following their appointment 'disclaimed' this obligation.
- ▶ FEA's obligation to provide financial assistance to FEAP of up to \$5.5 million per month. The Receivers also disclaimed this obligation.

It has been our view (notwithstanding any change since December 2009 in rental payment obligations) that there is no unpaid rent and indeed rent continues to be paid in advance.

Additionally it has recently been found the "2003 Master Lease" relied upon by the Receivers in seeking Directions from the Court to terminate leases was executed in July 2009 (after Deloitte commenced work as Investigating Accountants at FEA). This casts significant doubt over the validity of this lease and strengthens the case for Growers.

Notwithstanding these issues the Receivers have sought to terminate/forfeit the internal leases. We have foreshadowed to them proceedings seeking 'Relief from Forfeiture', a claim which we can bring to protect Grower-lessees' interests, where we are of the view any purported termination is ineffective. On 30 September 2011 the Receivers filed an Application for Directions in the Supreme Court of Victoria seeking endorsement of their actions. The proceedings follow the Receivers' failure in earlier Applications to the Federal Court of Australia materially seeking the same Directions. Instead of filing separate Proceedings for Relief against Forfeiture, the Deed Administrators intend to file cross-claims in the Receivers' Supreme Court proceedings seeking Relief against Forfeiture and resolution of the Receivers', separate claim to be entitled to invoice Growers for rent on internal land.

The Receivers' correspondence to Growers has dissuaded some of them from making Grower Contributions of Rent and Maintenance fees. Other Growers have simply ignored the Grower Contribution invoices issued by us on behalf of FEAP. Failure to make these payments is impairing the value of all Growers' investment in the 1996 Scheme, and indeed may threaten its overall viability.

9.2 EXTERNAL LEASES

We have paid rent due to external landlords from funds recovered from Grower Rent and Management Fee invoices issued. Nonetheless, events associated with our appointment in 2010 resulted in a dispute with one landlord. This has been the subject of formal and informal mediation. We consider the dispute is likely to be resolved on terms satisfactory to Growers in the near future.

9.3 STANDING TIMBER AND ESTATE HUSBANDRY

With the assistance of former FEA executives, we have undertaken a review of the timber on an extensive sample of the plantations. It included a comparison of the timber with the projected Mean Annual Increment ('MAI') of timber growth, and addressed tree nutrition, pests, weeds, fire protection, access, security, fencing and signage.

The review substantially confirmed the health of the estate, and that growth equalled or exceeded previously projected MAIs. Seasonal conditions have been conducive to growth and pest infestation has been minimal. Grass growth and insect penetration issues have been addressed and controlled by our maintenance program since the review.

We are currently undertaking a further maintenance program because at this time of year the plantations can come under stress.

Overall the Scheme's individual plantations were reported to be in good health.

10 FUTURE MANAGEMENT

Our last Annual Report foreshadowed the intent to harvest the plantations at an accelerated rate. Disagreements with the Receivers and the need to obtain FPPS mean harvesting must be concentrated on the externally leased land until issues with the Receivers are resolved. The Japanese Tsunami has meant the market for timber 'collapsed' where it is only now returning. We currently plan to commence harvesting on the externally leased 30.4 hectares soon, representing 15% of the total planted area of the 1996 Scheme. The harvest will be subject to individual property assessment, where the proceeds of it should net (after costs) \$250, 000 to Growers, or around \$500 per woodlot.

Provided we can overcome the disagreements encountered with the Receivers, the remaining 173.9 hectares of Internal Land should yield a further \$1.75 million to the Scheme, or a further \$3,361 per woodlot.

11 FUNDING AND GROWER DEFAULT

As noted earlier in the Summary of Financial Position, there have been defaults by Growers in payment of Rent and Maintenance contributions. Some of these defaults can be explained, for example by the appointment of Receivers to FEA, who also invested in the Scheme. Others are unexplained, and appear to be no more than delinquency in payment.

Viability of the Scheme depends on Growers paying ongoing Rent and Maintenance. It is unfair that Growers who pay their invoices are in effect, required to subsidise those who have not.

We have attempted to contact Growers with unpaid invoices to persuade them to pay. In cases where Growers have refused to pay, we have had no choice but to refer the matter to collection agents (in the case of Growers with smaller balances outstanding) or solicitors (for Growers with larger defaults).

Non-payment of invoices is putting all Growers investment at great risk where we strongly urge those who have not paid to do so immediately. Invoices are required to be paid promptly due to the obligation to pay external rent due at 31 December 2011.

We urge that Growers pay their invoices on a timely basis so that we can continue to represent the interest of Growers.

12 GROWERS COMMUNICATIONS

Please contact our FEA Grower Assistance Line on 02 8263 2300 if you have any questions relating to this Report.

Yours faithfully
FEA Plantations Ltd



Brian Silvia
Deed Administrator

ANNEXURE A

1996 Scheme Receipts and Payments For the period 14 April 2010 to 30 September 2011	
<u>Grower Receipts to 30 September 2011</u>	
<u>Grower Receipts Allocated to Scheme Pools</u>	
Insurance	26,327.33
Internal Rent	30,555.87
External Rent (94 - 02) / Rent (03 - 09)	5,268.25
Forestry maintenance	32,783.87
Other grower receipts	230.19
Total Grower Receipts Allocated to Scheme Pools	95,165.51
<u>Other Receipts</u>	
Cash at bank at appointment	1,632.65
Unallocated grower receipts	1,792.64
Other	16,740.14
Total Receipts	\$ 115,330.94
<u>Payments Made to 30 September 2011</u>	
<u>Payments Allocated to Scheme Pools</u>	
Insurance FY2011	11,691.44
Insurance public liability (FY12)	129.58
Internal rent	17,690.93
Forestry maintenance FY2011	4,098.46
Forestry maintenance FY2012	905.59
Forestry manager fee FY2011	9,939.61
Forestry assessment FY2011	4,388.77
Total Payments Allocated to Scheme Pools	48,844.38
Legal fees	13,880.41
Other	5,974.76
GST Scheme paid to FEAP	261.16
GST Scheme paid to FEAP - September 2011	1,155.00
Payment of disbursements on account of rent	2,096.05
Payment of pre appointment debtors to FEAP General Fund	983.26
Total Payments	\$ 73,195.02
Cash Balance at 30 September 2011	\$ 42,135.92

ANNEXURE B

FEA Plantations Limited

Summary - Project 1996 Estimated Cash Flows

	Internal hectares	External hectares	Consolidated hectares
Planted hectares under management	173.90	30.40	204.30
Estimated harvest volume - cubic metres			
Woodstock	68,387.50	10,305.60	78,693.10
Additional thinnings	-	-	-
Estimated total harvest volume - cubic metres	68,387.50	10,305.60	78,693.10
Estimate Project income	(\$)	(\$)	(\$)
Gross harvest proceeds	5,193,973	785,110	5,979,083
less harvesting fees	(1,641,300)	(247,334)	(1,888,634)
less cartage fees	(489,783)	(82,445)	(572,228)
less FEA deduction	-	-	-
Net stumpage per Woodstock	3,062,890	455,331	3,518,221
less adjustment due to current market conditions	(1,011,265)	(146,163)	(1,157,428)
Adjusted net stumpage @ \$30 per m3	2,051,625	309,168	2,360,793
add grower expense recoveries	147,721	25,824	173,545
Estimate total Project income	2,199,346	334,992	2,534,338
Estimate Project expenses			
Plantation insurance	(9,391)	(1,642)	(11,032)
Freehold property lease fees	(78,255)	-	(78,255)
Leasehold property lease fees	-	(13,680)	(13,680)
Plantation management overhead	(5,217)	(912)	(6,129)
Plantation maintenance	(7,826)	(1,368)	(9,194)
New RE management fees	-	-	-
Harvesting managers fees	(170,969)	(25,764)	(196,733)
Administration costs, charges and legal fees	(178,515)	(31,207)	(209,722)
Rehabilitation costs	-	-	-
Estimate total project expenses	(450,172)	(74,572)	(524,744)
Estimate net project income	\$1,749,174	\$260,419	\$2,009,593

ANNEXURE C

The Deed Administrator
C/- BRI Ferrier
GPO Box 7079
SYDNEY NSW 2001

FEA Plantations Limited
(Subject to Deed of Company Arrangement)
(Receivers Appointed)

FUNDING COMMITMENT FOR BACK UP GROWERS FUNDING ARRANGMENT

I confirm that I, _____ (Grower Number _____), of _____, am a Grower in the Tasmanian Forests Trust No 4 (the 1996 Scheme). My investment consists of _____ Grower Lots.

I have read the Report to Growers dated 21 November 2011 and I wish to participate in the Bank Up Grower Funding as outlined in Section 7 of that Report.

I understand that the Deed Administrators will utilise this funding in accordance with Section 7 of the Report.

I wish to participate in this Back Up Funding for _____ Growers Lots at \$100 per Grower Lot.

Please provide me with an invoice for the Grower Lots. I will make payment 14 days after receiving this invoice.

Dated this _____ day of _____ 2011.

Signed