

Annual Report to Growers by the Responsible Entity 2011-2012

Tasmanian Forests Trust No 6

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

25 May 2012

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1 EXECUTIVE SUMMARY

This is the 2011-2012 Annual Report to Grower-Investors in the Tasmanian Forests Trust No 6 Managed Investment Scheme (“The Scheme”) by its Responsible Entity, FEA Plantations Limited (“FEAP”). This Report should be read in conjunction with the Deed Administrators’ Annual Report to Growers dated 9 December 2011.

The purpose of this Report is to provide Growers with:

- An update on the current restructuring proposal being negotiated for your Scheme. If implemented, restructuring will resolve all of the current legal issues and enable your Scheme to continue to harvest;
- A Report on the action being undertaken by the Administrators to protect the interests of Growers and the potential impact of the Receivers’ actions on behalf of the Banks;
- An update on the financial position of the Scheme;
- An estimate of the financial return to Growers from Scheme assets;
- Information about how the Deed Administrators of FEAP are carrying out your Scheme;
- A report on how Grower Contributions are being used; and

An explanation of the round of Grower Contribution invoices which will be sent later this month.

Your Scheme comprises:

- 533.6 planted hectares (57%) of externally leased land. This land is leased from landlords who are separate from the Forest Enterprises Australia Ltd (“FEA”) Group and are not subject to any claims by the Receivers or the Banks; and
- 399.9 planted hectares (43%) of internally leased land. This land is leased from FEA Group companies whose Receivers claim to have entered into possession of it. That assertion is the subject of legal proceedings between the Receivers and the Deed Administrators.

2 PROPOSED RESTRUCTURE OF YOUR SCHEME

In recent months an indicative, non-binding restructuring proposal has been received from a large Australian Financial Institution. This proposal has been extensively negotiated by the Administrators and the current terms have been approved by the FEAP Committee of Inspection. The restructuring provides Growers with a positive outcome.

The institution is a credible counterparty with a strong balance sheet, experience and capability in retail and agricultural funds management to implement their proposal.

Whilst the final terms of the non-binding restructuring proposal are confidential and yet to be finalised, in broad terms it involves a restructure of your Scheme which will continue as a contributory scheme with a revised composition (project size) and fee structure. The Administrators believe the indicative terms proposed are reasonable and in the interests of Growers. Importantly Growers will maintain their interest in the trees until harvest.

The proponent is well advanced in carrying out due diligence on the estate and its restructuring proposal. The terms of the restructuring proposal are confidential pending further discussions with the Secured Creditors that should allow in-principle agreement to be put to Growers for their consideration. The restructuring proposal depends on the proponent reaching agreement with the Secured Creditors.

We anticipate that due diligence and negotiation of the final terms may take several more months to complete. As soon as final terms are available, we will call meetings of the creditors and Growers of FEAP, including members of your Scheme, to consider approving the proposal.

A condition of the restructuring proposal will be that all Growers are up to date with their compulsory contributions. Growers who fail to pay contributions are likely to be defaulted out of the Scheme.

We therefore encourage all Growers to pay outstanding contributions.

Pending consideration of the restructuring proposal by creditors and Growers, the Deed Administrators of FEAP are carrying on your Scheme. The Deed Administrators are unable to carry on the Scheme indefinitely due to the nature of their appointment, but are ensuring that as much value is preserved as possible pending a final resolution of the commercial and legal issues affecting the scheme.

Your Scheme continues to be insured; maintenance is carried out so far as possible; and rent is paid as due on externally leased land. Rent is not now being paid on “internal” land because the Deed Administrators’ investigations have, over time, indicated that none is due. The reasons for this are considered under the heading Current Legal Proceedings.

We will keep you informed of further progress as discussions continue to advance.

3 DISCUSSIONS WITH BANKS AND RECEIVERS

As outlined in the last Annual Report, there have been a number of rounds of discussions with the Banks and Receivers in an attempt to reach a negotiated settlement. These discussions have been separate to the restructuring proposal outlined above.

The discussions with the Banks/Receivers contemplated a sale of FEA Group assets, including trees planted by FEAP on internally owned land, and the distribution of the sale proceeds in accordance with a formula agreed between the Banks, Growers and FEAP unsecured creditors. Trees on external land would be harvested with timber sale proceeds distributed to Growers.

So far no agreement has been reached. The Banks/Receivers insist they are entitled to apply the sale proceeds from the trees to the repayment of their debt before any distribution is made to Growers. The discussions have been suspended while the restructuring proposal is being finalised.

The restructuring proposal, if implemented, will provide a better return to your Scheme than what has been offered by the Banks/Receivers to date.

4 CURRENT LEGAL PROCEEDINGS

We refer Growers to Sections 8 and 9 of the 2010-2011 Annual Growers Report, which summarised the efforts being undertaken by the Administrators to protect the interests of the Scheme and Growers. This Report can be accessed by clicking the link below:

<http://briferrier.com.au/downloads/ForestEnterprisesAustraliaGroupofCompanies/FEAP-Growers-Report-FY11-1998.pdf>

The legal proceedings initiated by the Receivers relate only to internal land and not the trees planted on external land where rent continues to be payable. The failure of some Growers to continue to pay contributions due has placed stress on the ability of the Responsible Entity to continue maintenance and lease payments.

Since last year's Annual Report the Administrators have continued their investigations into the leasing arrangements between the Schemes, FEAP, FEA and Tasmanian Plantation Pty Limited ("TasPlan"). These investigations support the ability of Growers to contend that the 2000 Head Lease (under which the Rent due for the entire period of the lease has been paid) applies and continues to be the operative leasing arrangements. On this basis, the Receivers are not entitled to terminate internal leases relevant to your Scheme. This proposition is supported by legal advice received by us in support of your Scheme's contentions.

Contrary to assertions made on behalf of your Scheme, the Receivers contend FEAP has to pay rent to FEA on the basis of a so called 2003 Master Lease, purportedly signed in 2003. Our investigations indicate the document was drafted and signed in July 2009. The Receivers further contend that a document titled the 2009 Deed of Variation, which was prepared with lawyers employed by the Banks in late December 2009, significantly increases the rent due under the purported 2003 lease.

The Administrators have now filed their Defence and Cross-claims in the proceedings. In summary, the Administrators contend:

- All internal land is covered by the 2000 Head Lease and the Forest Rights Deeds registered on the land titles. All rental obligations from FEAP to FEA have been satisfied under this lease, and the Schemes are entitled to occupy the land until harvest.
- The 2003 Master Lease relied upon by the Receivers was drafted and executed in 2009 and is therefore invalid.
- The 2009 Deed of Variation is void as the document provided no benefit to the Schemes, and therefore its execution was in contravention of the Corporations Act and immediately made FEAP insolvent, being unable to fulfil its duties as the Responsible Entity of the Schemes.
- Historically, FEA overcharged FEAP for management fees. This overcharging was in the tens of millions of dollars. This money should have been held by FEAP for the benefit of Growers. The Administrators contend that FEA must account to FEAP and the Schemes for the overcharges.
- That your Scheme is entitled to Relief Against Forfeiture. That is, should the Court assess any rent as owing by your Scheme, the Scheme be able to act independently of other Schemes to pay rent due and continue to operate until harvest.

As a result of the Defence and Cross-claim filed by the Administrators, the Receivers have advised that they will “substantially amend” their application to terminate the leases. This is a significant step by the Receivers who have so far relied on the 2003 Master Lease to deny Growers the right to their trees. Additionally, despite numerous requests, the Receivers have not yet presented any evidence supporting their case.

The Administrators have advised the Receivers that should they be intent on pursuing this action to completion, it would be in the interests of all parties for the land and trees be sold now, with the proceeds put into trust with the Court pending determination as to the basis of its distribution. Should the Court rule in favour of the Administrators, Growers would be entitled to the realised value of the trees. The Receivers have declined this proposal.

Whilst the Administrators are pursuing a legally supported case on behalf of the Schemes, we can only continue to do so if Growers continue making their ongoing contributions to the Schemes to fund the case and have sufficient funds on hand to demonstrate an ability to maintain the land after a judgement is handed down. These costs necessarily include non-compulsory contributions necessary to fund legal and administration costs.

5 SCHEME FINANCIAL PERFORMANCE

Annexure ‘A’ is a Summary of Receipts and Payments in respect of your Scheme for the period of Administration to 30 April 2012.

Annexure ‘B’ is a 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 commenced to preserve your investment, including a provision for Security for Costs in relation to one of the proceedings. The projections show a significant positive financial return to Growers from the harvest of their trees.

Annexure ‘B’ includes a summary of the projected return. This projected return is necessarily subject to numerous risks, including changes in harvest costs and changes in the timber market. It assumes the market price for timber and woodchip will return to more normal values over the next few years. It is provided as a “reasonable estimate”, and is likely to change, either to improve or deteriorate, before final distribution.

The Financial Institution backing the current restructuring proposal has undertaken its own financial modelling which supports the view your Scheme has significant intrinsic value which can be optimised by contributing to the Scheme until harvest.

The current projections for your Scheme are consistent with those outlined in the 2010-2011 Annual Report where the Administrators consider the long term market and growth projections have remained steady.

The Administrators are presently negotiating a long term timber sale agreement with a third party forestry harvester which should enable the progressive harvest of the trees on external leases within the 1995 to 1999 Schemes to take place. This will cover several Schemes and will result in cash flow for the Schemes going forward. This harvest revenue, should an agreement be finalised, will support the financial viability of your Scheme. The opportunity for harvest over the past year has been limited by

the impact on the wood-chip market of the Japanese tsunami. These issues appear to be abating providing renewed timber sale opportunities.

6 GROWER CONTRIBUTIONS

In December 2011 Growers were invoiced for compulsory contributions for the period 1 November 2011 to 30 June 2011 and for voluntary contributions to cover the legal and administration costs of the current legal proceedings. Many Growers have now made these payments, where we continue to follow up those Growers with outstanding contributions.

Your scheme depends on continuing contributions by Growers for Rent, Management and Insurance to meet the costs incurred in carrying on the Scheme. Since the appointment of Administrators, these costs have included some legal and professional costs incurred due to the legal proceedings with the Receivers about Internal land and also with some External landlords. These costs have been incurred to preserve the Scheme's rights to access and harvest your trees, and with it the return you will earn from your woodlot. Further information about these costs is set out in the account of Scheme Receipts and Payments in Annexure 'A'.

As we are approaching a new financial year, it is necessary to invoice Growers for their compulsory contributions. A small voluntary contribution has also been added to cover the current funding shortfall from the December 2011 invoicing. Voluntary contributions will be repaid to Growers in priority to Scheme distributions.

We note that should the terms of the current restructuring be implemented, Growers will be required to pay all outstanding compulsory contributions to participate in the Scheme. A financial benefit will also be provided to Growers who pay the requested voluntary contributions. Growers who do not pay their compulsory contributions are likely to be defaulted out of the Schemes and pursued for outstanding payments.

We urge all Growers to pay their contributions to support the financial viability of their Scheme and to enable the Administrators to pursue the legal case on behalf of the Schemes and the Growers.

7 GROWERS CORRESPONDENCE

Should the negotiations with the Financial Institution continue as planned, we will be reporting to Growers in the coming months, and convening meetings of creditors, including Growers, to consider approval of this restructuring.

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

FEAP 1998 Scheme Receipts and Payments	
For the period 14 April 2010 to 30 April 2012	
<u>Grower Receipts to 30 April 2012</u>	
<u>Grower Receipts Allocated to Scheme Pools</u>	
Lease	322,878.39
Maintenance	97,220.41
Insurance	90,958.63
Administration Costs	73,956.06
Legal Fees	58,108.33
Other Grower Receipts	3,921.58
Total Grower Receipts Allocated to Scheme Pools	<u>647,043.40</u>
<u>Other Receipts</u>	
Cash at Bank at Appointment	22,827.30
Pre-Appointment Grower Insurance Claim (Wind and Fire Damage)	107,183.76
Unallocated Grower Receipts	8,939.94
Pre-Appointment Debtor	9,211.89
Bank Interest	738.52
Total Other Receipts	<u>148,901.41</u>
Total Receipts	<u>\$ 795,944.81</u>
<u>Payments Made to 30 April 2012</u>	
<u>Payments Allocated to Scheme Pools</u>	
Forestry Insurance	38,071.32
Insurance - Public Liability and Workers Compensation	1,226.54
External Rent	500,715.97
Internal Rent	113,521.57
Forestry Maintenance FY2011	18,965.25
Forestry Maintenance FY2012	801.91
Forestry Manager Fee FY2011	10,196.27
Total Payments Allocated to Scheme Pools	<u>683,498.83</u>
<u>Other Payments</u>	
Disbursements	13,270.19
Legal Cost Security Bond	17,000.00
Legal Fees	9,791.66
Other	6,663.84
Professional Costs	8,795.05
Payments to FEAP General Fund	36,873.38
Total Other Payments	<u>92,394.12</u>
Total Payments	<u>\$ 775,892.95</u>
Cash Balance at 30 April 2012	<u>\$ 20,051.86</u>

ANNEXURE B

FEA Plantations Limited

Summary - Project 1998 Estimated Cash Flows

	Internal Area	External Area	Total Area
Planted hectares under management	399.90	533.60	933.50
Estimated harvest volume - cubic metres			
Woodstock	91,047.70	134,509.10	225,556.80
Additional thinnings	-	-	-
Estimated total harvest volume - cubic metres	<u>91,047.70</u>	<u>134,509.10</u>	<u>225,556.80</u>
Estimate Project income	(\$)	(\$)	(\$)
Gross harvest proceeds	6,803,086	10,050,551	16,853,638
less harvesting fees	(2,185,145)	(3,228,245)	(5,413,390)
less cartage fees	(1,057,950)	(1,385,198)	(2,443,147)
less FEA deduction	-	-	-
Net stumpage per Woodstock	<u>3,559,992</u>	<u>5,437,109</u>	<u>8,997,101</u>
less adjustment due to current market conditions	(828,561)	(1,401,836)	(2,230,397)
Adjusted net stumpage @ \$30 per m3	<u>2,731,431</u>	<u>4,035,273</u>	<u>6,766,704</u>
add grower expense recoveries	264,190	352,518	616,708
Estimate total Project income	<u>2,995,621</u>	<u>4,387,791</u>	<u>7,383,412</u>
Estimate Project expenses			
Plantation insurance	(21,595)	(28,814)	(50,409)
Freehold property lease fees	(179,955)	-	(179,955)
Leasehold property lease fees	-	(267,081)	(267,081)
Plantation management overhead	(11,997)	(16,008)	(28,005)
Plantation maintenance	(17,996)	(24,012)	(42,008)
New RE management fees	-	-	-
Harvesting managers fees	(227,619)	(336,273)	(563,892)
Administration costs, charges and legal fees	(347,589)	(463,799)	(811,388)
Rehabilitation costs	-	-	-
Estimate total project expenses	<u>(806,750)</u>	<u>(1,135,988)</u>	<u>(1,942,737)</u>
Estimate net project income	<u><u>\$2,188,871</u></u>	<u><u>\$3,251,803</u></u>	<u><u>\$5,440,674</u></u>

Summary of key assumptions

All income and expense amounts exclude CPI

Gross harvest proceeds, harvesting and cartage fees and FEA deduction accord with a Woodstock forestry harvesting model prepared on 18 July 2011.

The "net stumpage" (gross sales revenue per cubic metre) has been adjusted down to \$30/m3 to reflect current market conditions.

The proportion of grower expense recoveries has been allocated to the Project on a hectares under management basis.

Plantation insurance has been prorated on a hectares under management basis.

Freehold property lease fees (rent) calculated at \$300 per hectare per annum to represent an approximate commercial rent.

Leasehold property lease fees (rent) calculated using the Project's weighted average external lease fee per hectare per annum.

Plantation management overhead projected at \$20 per hectare per annum.

Plantation maintenance projected at \$30 per hectare per annum.

New RE management fees projected at \$40 per hectare per annum.