Report to Growers

BRI Ferrier
Business Reconstruction & Insolvency

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

Report 22 July 2011

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1 INTRODUCTION

1.1 Contents

This Report to the Growers of FEAP deals with:

- Options for Growers and Creditors
- Status of RFM Proposal
- Blacktree Proposal
- New Investment Bank Proposal
- Recommendations
- Deed Administrators Forest Practices Plan Proceedings
- Harvesting and Scheme Maintenance

1.2 Executive Summary

RFM has withdrawn their proposal, which formed the basis of the Forbearance Agreement. RFM has since submitted an amended proposal that significantly changes the return to Growers and unsecured creditors, and offers a greatly reduced result. Additionally, the banks have advised RFM that the Forbearance Agreement is at an end.

As Deed Administrators, we determined that it was appropriate to re-evaluate all of the options available to the creditors and Growers. The outcome of that remains set out below. Additionally in the last week, we received a draft proposal from an investment bank.

The options reviewed are:

- Revised RFM Proposal
- Blacktree Proposal
- Investment bank Proposal
- One Line Sale Option
- Scheme Go It Alone Option

Each of these proposals and options has different potential returns to Growers and unsecured creditors. There are also different implementation risks. This report provides details of each of the proposals and analyses the respective returns to Unsecured Creditors, Growers and the Banks

The table below summarises the financial outcomes of the various proposals

Deal Value Assssment - Summary				
Deal Value Return to:	**RFM ($ million)**	**Blacktree ($ million)**	**Investment Bank ($ million)**	**One Line Sale ($ million)**
Banks	$193	Undetermined	$190m	$230 *
1995-1998 Schemes	$14.3-$15.6	$14.3-$15.6	$14.3-$15.6	
1999-2002 Schemes	$30 million in shares & 30% of profits over		$75 -$93	$80 - $160
2003-2009 Schemes	20% of profits over harvest	Negotiated in sale of land	15% of land & free sales values	
Unsecured Creditors	5%	Nil	$500,000	Zero to $5 million

Note: *Subject to agreement on minimum sale price with Receivers.

As well as the estimated returns, creditors need to consider the various deal execution risks. The table below summarises the major risks, however, this is not an exhaustive list.

Issues	RFM	Blacktree	Investment Bank	One Line Sale
Due Diligence	Almost Complete	Will complete after appointment	Focused on Land Value	Bank Negotiation
Funding In Place	Yes	N/A	Subject to Valuation	N/A
Time to Execution	Sep-11	Jul-11	Oct-11	Aug-11
Cashflow Timing	Growers Receive units in Sept 2011	From Harvest 2012-2019	Ongoing Schemes to harvest 2012-2016 & Sale of land 2011-2015	Land Sale 2012
Legal Risks	Low	High	Medium	Medium
Sponsor Risks	Medium	HIgh	Medium/High	N/A

As highlighted above, there are many factors affecting the return to Growers and creditors. The subsequent sections in this report provide additional detail on the various proposals and options.

After considering all factors, the Administrators recommend pursuing the One Line sale and investment bank proposals in tandem, however, Growers will need to consider the risk of forgoing the RFM and Blacktree proposals.

The investment bank's proposal is not inconsistent with the Blacktree proposal.

1.3 Growers Meeting Recommendation

The adjourned Growers' meeting has been set down for Tuesday 26 July 2011. Given the recommendations contained herein, which highlight the benefits of the proposal we have made to the banks, we feel it would be appropriate to adjourn the Growers meeting again in order that we can determine the best course of action for Growers.

OPTIONS FOR GROWERS AND CREDITORS

2 RFM REVISED PROPOSAL

2.1 Summary of Proposal

- Acquisition of all FEA and scheme assets
- Injection of $100 million in equity and $90 million in debt
- New company formed to hold land, trees and other assets
- Banks paid the agreed sum under the forbearance agreement
- RFM to manage the estate going forward

2.2 Return for Growers and Unsecured Creditors

- 1995-1998 Schemes continue as is to harvest, with net proceeds returned to growers estimated at $15 -$18 million;
- 1999-2002 Growers receive 15% ($30 million) in shares in new entity, Timberland;
- 1999-2009 Growers receive 50% of profits after equity repaid $200 million. Valued between zero and $73 million;
- 2003-2009 Growers who made voluntary payments to receive equity on a dollar for dollar basis; and

- Unsecured creditors to receive approximately 5 cents in the dollar dividend.

2.3 Status of RFM Proposal

RFM have recently advised that their former offer of $140 million for Growers (1999 to 2009) and $5 million for unsecured creditors has been withdrawn. They are now proposing $30 million (15% of equity in new company) for Growers in the 1999 to 2002 Schemes, with no upfront return to other Growers. Growers in the 1999 to 2008 Schemes have also been offered 50% of upside profits after the investor is repaid two times their original investment. This is the return over the base case budgets. The investor is proposing to invest $100 million in equity and access $90 million in loan facilities to finance the deal along with $38 million in land sales. The land sale figure has reduced from the original $63 million. There are $27 million in transaction costs with the balance of funding held as cash on hand to fund the new company.

Growers from 2003 to 2009 are being asked to release all of the Scheme assets for no upfront consideration as part of the proposal, and only receive a return if the realisations are above the base case returns projected by the investor. RFM is presently investigating offering equity to those Growers in the 2003 to 2009 Schemes who made voluntary contributions to the Administrators and experts to be able to do so on a dollar for dollar basis.

1995 to 1998 Schemes would continue to harvest with Timberland being the new internal landlord for the Schemes.

It is the view of the Deed Administrators that the revised offer significantly undervalues the interests of the Growers. However, it does provide some 'deal certainty' as due diligence has been completed.

3 BLACKTREE PROPOSAL

3.1 Summary of Proposal

- Grower meetings to amend constitutions for schemes 1999-2008;
- 2003-2008 Schemes converted from deferred contribution to contributory;
- BlackTree appointed manager of Schemes;
- Resolutions to change Responsible Entity, however insufficient votes received in majority of schemes;
- RE to continue legal actions against the Receivers to enforce Growers rights;
- No upfront solution to bank efforts to terminate leases;
- Does no deal with other FEA assets;

3.2 Return for Growers and Unsecured Creditors

- 1995-1998 Schemes to continue as is to harvest;
- 1999-2002 Schemes to continue as contributory schemes;
- 2003-2009 Schemes to negotiate with banks on One Line sale with revenue sharing;
- No return to unsecured creditors;

3.3 Status of Blacktree Proposal

The BlackTree proposal meetings are to be held on 26 July for the Schemes 1999 to 2008. Their proposal remains the same as covered in the January paper, with the following three exceptions:

- BlackTree Pty Limited is to be replaced by BlackTree Management Pty Limited as the new manager. This is to do with a cost claim indemnified by BlackTree Pty Limited in unrelated litigation.
- The present proposal is for the Constitutions to be changed and BlackTree to be appointed as manager, but not replace the RE at this stage.
- BlackTree have now indicated that they consider the 2004 to 2008 Scheme land would likely need to be sold, and are looking for the Administrator to negotiate with the banks to obtain some benefit to growers in these schemes.

BlackTree still face the current legal issues of:

- The Master Lease, where they are not seeking to take over and run all of the Schemes
- The Forest Practice Plan (FPP) dispute with the receiver preventing the harvesting of the trees, and
- The appeal outcome over use of the $11 million offset

ASIC have advised the Administrator that in the event that FEAP executes the Management Agreement with BlackTree that FEAP is carrying on business as an RE and must therefore comply with all conditions of their Australian Financial Services License. This is practically impossible for FEAP to comply with. ASIC has been informed that we will object to this determination. ASIC advised that they would consider our objection and potentially waive some of the conditions, however they are seeking our input as to which conditions can be complied with.

Without ASIC consent, we could not implement the Blacktree proposal.

We would need to seek the Banks consent to execute the Management Agreement with BlackTree. If the banks object then we would need to seek Directions from the Court. This is due to the banks claiming security over the current management agreements.

BlackTree have not presently sought to replace FEAP as manager of the 1995 to 1998 Schemes, but have indicated a willingness to do so.

Based on NPV projections (consistent with the projections in the asset valuations for Scheme years 1999 to 2008, with BlackTree management fees included) the best-case scenario is for an NPV return to Growers of $72 million. This assumes that all Schemes continue to harvest, and all Growers, or replacement Growers, funding the Schemes to harvest. The NPV is different to the Go It Alone proposal due to the fees charged. Should the Court determine that the banks are not liable for the FPP obligations, then the NPV is reduced to $46 million for the 1999 to 2008 Scheme years. Growers' contributions of $132 million would be required for all Schemes to run until harvest and are included in the NPV calculations.

The process of seeking to operate these Schemes independently is not predicated on the Growers voting in BlackTree. This can be operated by FEAP under the current Scheme arrangements then transferred to a permanent Responsible Entity when the offsets have been utilised.

4 NEW INVESTMENT BANK PROPOSAL

An investment bank has submitted a proposal, which we find beneficial and wish to further negotiations.

4.1 Summary of Proposal

- Acquire all internal land, loan book, Smart Fibre & Timberlands units for $190 million payment to banks to purchase their debt
- Deeds of Company Arrangement to implement proposal in Tasmanian Plantations and FEA
- Funded by $100 million debt and $90 million equity
- 1995 to 2002 Schemes continue as contributory schemes. New leases put in place to replace current leases
- 1995 to 2002 Schemes to bear contingent liability for destumping on harvest (only pay if destumping required), NPV cost between zero and $12.5 million. Note: destumping is less costly than replanting
- Investment bank to cancel FEA held and capable of cancellation (currently in default) Grower lots to compensate the Schemes. Value between $5 million and $6 million
- All land sold to third parties over four years
- 2003 to 2009 Growers to receive 15% of the proceeds of the sale of their land and trees

4.2 Return to Growers and Unsecured Creditors

- 1995 to 2002 Schemes to continue to harvest with value between $75 million and $93 million. However, Schemes have a contingent liability for destumping, partially compensated by cancelled FEA Grower lots.
- 2003 to 2009 land sold with estimated proceeds between $22.5 million and $30 million to Growers

4.3 Overview of Proposal

On 8 July, the investment bank presented a draft-revised proposal to the Administrators. This proposal is effectively a One Line sale proposal with following features:

- Schemes 1995 to 2002 remain in place with land sold to new owner, proceeds to the investment bank, no payment to Growers from land sales as per current Scheme arrangements. The high valuation to Growers in these Schemes is $93.4 million and a low valuation of $75 million.
- The investment bank is looking for Growers to cover the cost of destumping the schemes. This is a contingent cost covering 14,000 hectares at an NPV of approximately $12.5 million. If the land is sold as forestry land then there is no cost to Growers. To compensate Growers, the investment bank is willing to forfeit the FEA owned Grower units increasing the return to Growers by $5-6 million.
- Schemes 2003 to 2009 land and trees are sold. Growers to receive 15% of the net sale proceeds (approximately $22.5 million to $30 million). This compares reasonably with a One

Line sale where the return to growers would be between $5.9 million and $17.7 million.

- Trees on externally leased land are valued between $20 million and $33.8 million. The value of these would accrue to Growers, should Growers wish to continue with the Schemes.

The investment bank will acquire Smart Fibre and the FEA Timberland Fund.

The investment bank could settle on the loan book in approximately 8 weeks. This would bring forward the payment to the banks and provide them with more certainty. They expect to settle on the land in October.

4.4 Benefits of the Proposal

- Schemes 1995 to 2002 remain as they are and Growers receive the benefit of the harvest. They could be harvested over 4 to 5 years with minimal contributions required from Growers. This avoids the negotiation with the banks on apportionment of value in the One Line sale proposal between the trees and the land
- Growers in 2003 to 2009 receive a fixed sharing of the sale proceeds. The 15% of proceeds would fairly value the current NPV of the Schemes. The exact apportionment between the Schemes is to be determined
- With the investment bank being able to settle on the loan book first, banks are not waiting months for a cash return

We have requested that the investment bank rework their proposal to include a dividend to unsecured creditors. We expect their revised proposal prior to the committee meeting and this will be discussed at the meeting.

4.5 Negatives of the Proposal

- The investment bank have to undertake due diligence. This is time consuming and could affect final structure. Banks and Growers are looking for certainty
- The due diligence would need to confirm on agreed market value for land at $250 million
- Banks would have to accept pay out figure similar to the agreed RFM payout figure as the basis for an exit payment.
- Bank financing of $90 million required. However the investment bank could provide this
- The destumping costs could reduce returns to 1995 to 2002 growers by up to $7.5 million though the end figure is likely to be significantly less.
- The investment bank plan to charge market rent for the 1995 to 2002 schemes. No consideration has been given as to the 28% of growers in the schemes who have prepaid their leases. We are seeking further information from the investment bank on this

5 ONE LINE SALE OPTION – SALE OF FEA GROUP ASSETS

5.1 Summary of Option

- Negotiate an agreement with Receivers wherein all assets of FEA and FEAP are put up for sale;

- Set an agreed floor price, below which the Administrators are not bound to sell; to protect the interests of growers and unsecured creditors;
- Asset sale proceeds to be allocated between Banks, Schemes and FEA (unsecured creditors);
- Viable external trees to be continued for the benefit of growers; and
- Joint sales approach between Receivers and Administrators to ensure rights of growers and unsecured creditors are protected.

5.2 Return for Growers and Unsecured Creditors

- Estimated proceeds before costs and excluding external trees of between $84 million and $179 million. This applies to all schemes 1995 to 2009;
- External trees have a NPV between $20 million and $33 million;
- Division of returns between Growers and Unsecured Creditors depends on individual asset sales prices;
- Removes need for ongoing Grower contributions with respect to internal land; and
- Banks repaid in full if floor price of $300 million achieved.

5.3 Ongoing Management of External Leases in Schemes

In a One Line sale proposal the externally leased land does not form part of the assets offered for sale. Based on the current financial forecasts there is a significant positive return to growers of between $20 million and $32 million.

Further work is required to determine the economics of managing the later schemes. Current analysis suggests it would not be economic to seek to continue the 2003 to 2009 schemes on a stand-alone basis. However, the 1997 to 2002 external land in Tasmania would be economic.

The Schemes would continue as contributory schemes until harvest with all net harvest proceeds returned to Growers.

6 RECOMMENDATIONS

The proposals that provide the Growers and unsecured creditors with the highest potential returns are the One Line Sale proposal, and the investment bank proposal.

If both processes move in parallel, then the Banks will be in a position to accept the investment bank proposal once its due diligence is complete.

A standstill agreement would need to be in place with banks to outline the One Line Sale proposal and protect the interests of the Growers.

7 DEED ADMINISTRATORS' LEGAL PROCEEDINGS

7.1 Internal Properties – Forest Practice Plans

As previously agreed with the Committee, we approached the Federal Court in Melbourne seeking a declaration under Section 447D of the Corporations Act that FEA and Tasmanian Plantations as relevant are obliged to execute Forest Practice Plans ("FPPs") to enable us to harvest or thin timber in the Schemes 1995-2002. Without signed FPPs it is not possible to harvest in Tasmania. The Receivers have refused to sign these documents to date as they refuse to accept their responsibility to reforest and maintain the properties in perpetuity.

The timetable for the proceedings has been set down, and a mediator must be agreed by the parties by 31 August 2011 to allow a mediation to occur by 31 October 2011. The result of the mediation is to be advised to the court by 4 November 2011 for a directions hearing on 8 November 2011.

In the event that the mediation is unsuccessful, it is unlikely that the court will hear the matter in 2011, a likely court date would be early 2012.

We contend that the Growers as tenants are entitled to quiet enjoyment of the properties for which they pay rent, particularly as rent has been paid previously in cash and ongoing rent by way of offset against the amounts owed to FEAP by FEA.

Further, we contend that the rights of the many of Growers who prepaid rent for their woodlots cannot be simply ignored as a result of a charge taken out later to secure the position of the banks and that the banks must acknowledge the rights of the these growers. We are seeking Court Directions that the Receivers must execute FPPs to provide Growers with the access to the timber that is Scheme property pursuant to the Prospectus/ Product Disclosure Statements.

7.2 External Leases – Termination of Leases

We have also approached the Federal Court in Melbourne for Directions in relation to two external leases. The application seeks to prevent the termination of the leases and force the lessors to execute the FPPs. These lessors have sought to terminate their leases and take possession of the trees. Mediation in respect to these applications is to be held by 31 August 2011 for further directions by 13 September 2011.

Should mediation be unsuccessful, it is expected that the matter will be held in court later this year.

The rights of growers to access and harvest on external leases are being defended by these two cases, and we expect that other landlords will be persuaded by the directions made.

8 HARVESTING & SCHEME MAINTENANCE

8.1 Harvesting and Thinning

Harvesting has not occurred in recent months because of the effect of a downturn in the industry, the closure of Tasmanian mills, some temporarily and some permanently, and the Tsunami in Japan. These factors have made sale of timber almost impossible for FEAP in the short term. We have also approached SmartFibre who have asked FEAP to wait until they are in a position to take timber. We have approached Pentarch, who have taken over the Massey Green facility at Burnie, and they are gearing up to take our timber in four weeks time. We currently have a number of smaller external coupes which could be harvested, to supply Massey Green.

We plan to resume thinning in both North East Tasmania and North West Tasmania soon, which will provide some funding relief to the relevant schemes when timber is sold. This plan contemplates that the 1999-2002 Schemes have over 700,000 tonnes of thinning to be harvested; some coupes had already commenced thinning before our appointment. These can be reactivated as soon as there is a market for the timber.

We are continuing to undertake basic maintenance for the early schemes in both Tasmania and NSW for which we have funding. Our activities in both areas have concentrated on insect infestation and keeping the fire-trails free.

9 BRI CONCLUSION

As stated above, we believe that Growers should further adjourn the Growers' meeting on 26 July 2011 to allow the offer made for the assets and the agreement of the banks to unfold.

10 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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