FEA Plantations Projects 2003 to 2009

(2003 to 2009 Managed Investment Scheme)

FEA Plantations Limited
(Administrators Appointed) (Receivers Appointed)
Report 4 August 2010

Brian Silvia and Peter Krejci Joint Administrators
BRI Ferrier (NSW) Pty Ltd ABN 97 128 947 848
Level 13, 1 Castlereagh Street, Sydney NSW 2000
GPO Box 7079, Sydney NSW 2001
Phone (02) 8263 2300 Facsimile (02) 8263 2399
Email: fea@briferriernsw.com.au
Website: www.briferrier.com.au

Contents

1 EXECUTIVE SUMMARY

1.1 Purpose of Report

The purpose of this report is to provide growers in Projects 2003-2009 with an overview of:

- BRI Ferrier involvement as Administrators;
- Individual Scheme Viability;
- Grower Rights;
- Alternate Realisation Strategies.

1.2 Formal Appointments

You are aware Peter Krejci and myself are the Administrators of FEA Plantations Limited (Administrators Appointed) (Receivers Appointed) ("FEA Plantations as the Responsible Entity" "FEAP") having been appointed by the directors on 14 April 2010.

On 3 June 2010, the Banks appointed Tim Norman and Sal Algeri of Deloitte as Receivers to FEA Plantations. Their appointment as Receivers is limited and does not extend to the Responsible Entity, which is the investment management function for FEAP's forestry projects.

2 BRI FERRIER INVOLVMENT AS ADMINISTRATORS

2.1 Role of BRI Ferrier

Our role as FEAP's Administrators is to look after the interests of all stakeholders including growers / investors. The Banks have appointed Deloitte as Receivers to look after their interests.

To date we have expended considerable time and effort in:

- Developing detailed realisation strategies for each FEAP Managed Investment Scheme ("MIS") project which has involved planning and developing realisation strategies, budgeted cash flows, likely grower realisations and stress testing of the realisation plan.
- Negotiating with various parties in relation to proposed harvesting of plantations.
- Documenting negotiations with harvesting contractors.
- Discussions with potential purchasers of FEAP's forestry plantations and associated FEA Group owned properties.
- Investigating the background of the FEA Group collapse. Currently we have not completed our investigations and are unable to comment further at this stage on the outcome of our deliberations.

2.2 Funding of Administration Costs

Since our appointment BRI Ferrier has funded all Administration (including MIS) costs incurred to date. They include:

- Dispatching reports to growers (in excess of $90K to date) where the Court has authorised future communication with growers / creditors by email with the intent of preserving growers/investors interests.

- Making four Applications to the Court in respect of the convening period for the Second Meetings of Creditors, the "Decision Period" relative to the adoption of leases (2 Applications) and communicating with growers by email. These Applications were made with the support of the Creditors Committees and an Informal Growers Committee. Legal costs associated with those Applications total in excess of $200K to date funded by BRI Ferrier.

- Extensive travel and accommodation costs.

To date Administration out of pocket expenses total in excess of $450K funded by BRI Ferrier. No administration funding has been received by BRI Ferrier from any external source.

2.3 Administration Remuneration and Expenses

To date BRI Ferrier has funded the Administration of FEAP to in excess of $2.4M. Whilst we are entitled to exercise various "liens" in respect of recovery of part of these costs it is now necessary for each of the MIS's to fund their own, budgeted future costs including our remuneration and out of pocket expenses.

3 INDIVIDUAL SCHEMES VIABILITY

3.1 Overview

All of the Schemes for 2003-2009 are predicated on deferred lease and management fee arrangements where growers have no current obligation to meet Scheme expenses on an annual basis. These expenses were to be recovered by FEAP as the Responsible Entity from harvest proceeds which in some instances were not forecast to occur for in excess of 20 years.

The deferred fee payable to FEAP for fulfilling such funding responsibilities as Responsible Entity from harvest proceeds varied between 5% to 18% for the respective Schemes.

Prior to our appointment, FEAP as the Responsible Entity had entered into a Head Management Agreement with FEA where it was responsible for undertaking operations for all Schemes for $1 per month per Scheme. This Agreement was terminated by the FEA Receivers & Managers shortly after their appointment.

Internal land lease rentals were funded by FEA group company "journal entries" on a monthly basis. Intercompany loan arrangements which funded rent payments are no longer available following the Receivers appointment. All future rent owing must be physically paid.

The consequence of termination of the Head Management Agreement and the need to pay leased property rental and all other ongoing Scheme operating expenses at "market rates" results in the need for growers to proximately fund such costs notwithstanding all previous arrangements. A failure by growers to fund costs will result in the automatic loss of value of your investment.

3.2 Plantation Future Operating Costs

We estimate the costs of operating the following Schemes for the 2011 financial year (including annual administration costs) to be:

2003

2003	
Expense Item	**Amount Payable**
Rent	$ 547,214
Maintenance	12,664
Overhead and Administration Costs	401,200
Project Insurance	32,932
Future Cost to Maintain Scheme	**$ 994,010**
Cost per Hectare to Maintain Scheme	**$ 470.94**

2004

2004	
Expense Item	**Amount Payable**
Rent	$ 1,189,222
Maintenance	57,356
Overhead and Administration Costs	391,200
Project Insurance	90,901
Future Cost to Maintain Scheme	**$ 1,728,679**
Cost per Hectare to Maintain Scheme	**$ 391.82**

2005

2005	
Expense Item	**Amount Payable**
Rent	$ 2,885,478
Maintenance	119,652
Overhead and Administration Costs	391,200
Project Insurance	171,013
Future Cost to Maintain Scheme	**$ 3,567,343**
Cost per Hectare to Maintain Scheme	**$ 387.59**

2006

2006	
Expense Item	Amount Payable
Rent	$3,097,979
Maintenance	618,793
Overhead and Administration Costs	401,200
Project Insurance	377,727
Future Cost to Maintain Scheme	**$4,495,699**
Cost per Hectare to Maintain Scheme	**$ 414.85**

2008

2008	
Expense Item	Amount Payable
Rent	$4,878,161
Maintenance	3,157,871
Overhead and Administration Costs	401,200
Project Insurance	750,747
Future Cost to Maintain Scheme	**$9,187,978**
Cost per Hectare to Maintain Scheme	**$ 525.90**

2007

2007	
Expense Item	Amount Payable
Rent	$2,915,817
Maintenance	990,782
Overhead and Administration Costs	391,200
Project Insurance	444,790
Future Cost to Maintain Scheme	**$4,742,589**
Cost per Hectare to Maintain Scheme	**$ 507.39**

2009

2009	
Expense Item	Amount Payable
Rent	$ 633,638
Maintenance	303,160
Overhead and Administration Costs	401,200
Project Insurance	100,208
Future Cost to Maintain Scheme	**$1,438,206**
Cost per Hectare to Maintain Scheme	**$ 616.73**

3.3 Assessment of Project Viability

We have sought to assess the future viability of your investment by analysing its viability with its expected completion.

The plantations representing the majority of the 2003-2009 Schemes are in good productive high rainfall areas of Tasmania, NSW and Queensland. However they are immature where the latest Schemes require significant investment in pruning, weeding, protection against wildlife, fire prevention and other such works to protect them. There are currently problems in determining the best marketing opportunities for the timber so as to establish a basis for milling, transporting, selling, etc. To that extent, whilst we believe the timber value will be quite significant, we cannot definitively express a view that the Schemes will prove viable. We suspect they will but this needs to be proven before we can ask growers for financial commitment to sustain them.

We continue to assess recent data from the Receivers and Managers for 2003-2009 seeking to establish opportunities to improve project viability. The outcome of this further assessment is crucial to the continuation of all 2003-2009 Schemes where we expect to provide you with the results of our continuing enquiries within the next 10 days.

Fundamental to the viability of your investment is the fact that most of the plantations are located in Northern NSW where markets do not necessarily currently exist proximate to them. Project viability will be dependent upon identification of more proximate markets for your timber with the consequential saving in transport costs which is currently prohibitive based on it being sold into Brisbane or Newcastle. Our viability assessment has identified the following issues:

- Plantation growth rates in some instances are significantly below those projected in the Prospectus / PDS. We are currently assessing the accuracy of projected growth assessments.
- Harvest revenue is based on a perception of “wood chip” sales where other sales opportunities may exist for your hardwood timber resulting in value “up lift”. We have retained an industry expert to assist us in exploring these opportunities.
- Transport has been assessed on haulage rates to Brisbane and Newcastle for all timber located in Northern NSW where these costs are prohibitive. Should sales opportunities be identified closer to the resource location; these costs have the capacity to reduce significantly.
- Lease expenses average approximately $300 per hectare. The current “market lease” rate is $180 to $220 for similar land. The internal lease rate is based on the weighted average lease cost of the external leased land. The external lease rate in most instances is based on a “fixed cost” CPI adjusted annual rate.
- In assessing the viability of each Scheme we are in the process of completing a detailed analysis of each plantation site to determine its financial viability.

Termination of unprofitable external land leases has the capacity to reduce the internal property lease costs (based on the weighted average lease cost). Our initial investigations indicate lease costs if reduced to

$255 per hectare would result in a reduction of 15% of rental costs or $2.5 m p.a for the 2003-2009 Schemes.

We intend within the next two weeks to evaluate the 2003-2009 Schemes such that we can provide you with their respective future strategies.

3.4 Other Factors Potentially Affecting Growers Returns

Section 4.1 of this Report mentions the FEA Receivers have commenced proceedings seeking to terminate the external land leases for Schemes 1996 to 1999. There is a potential for similar proceedings to be commenced by the Receivers in respect of other property leases.

More pressing however is the issue of external land leases. They generally include default mechanisms arising from non payment of rent where:

- An event of default occurs 28 days following non payment of rent. Consequently default has occurred at 28 July 2010 on most leases.
- Default may be rectified within 28 days of receipt of notice from individual landlords.
- Following expiry of the rectification period the ultimate obligation to yield up a property does not occur for a further 14 to 28 days. Currently the earliest date for loss of external leased properties is 9 September 2010.

There are currently no funds available to pay any of the external land lease rental obligations. If these leases are to be kept on "good standing" they will require funding by growers where obviously your preparedness to do so will be influenced by project viability which at present remains unresolved.

Growers should expect requests for funding contributions should we establish viability prospects for your Scheme.

4 GROWER RIGHTS

4.1 Receivers Court Application

On 16 July 2010 the Receivers & Managers of FEA commenced proceedings to terminate all external leases and "Profit a Prendré" for Scheme Years 1996 to 1999. They have not as yet sought to terminate internal leases ie; property owned by FEA Group companies. The "Profit a Prendré" is a caveatable interest registered on title which recognises the rights of growers to the plantations.

If the Receivers & Managers commence similar proceedings for internal leased properties (all years) this would have a significant impact where it would have the capacity to reduce growers returns to nominal values.

Our solicitors advised the Receivers solicitors on 27 July 2010, FEAP as the Responsible Entity is prepared to undertake all necessary site maintenance issues for 1996 to 1999 and as a consequence they should discontinue their proceedings. The Receivers have failed to accept our assurances on this issue which we will now defend.

4.2 Current Commercial Arrangement

Your respective PDS's / Prospectus provide for the deferral of any obligation of growers in your Scheme to contribute lease and maintenance funding until the completion of harvest. At that time FEA Plantations as the Responsible Entity is entitled to deduct a percentage of the harvest proceeds in compensation for funding such costs.

In relation to the NSW based properties (73%) certain grower rights can exist in addition to the benefits of "Profit a Prendré" or "Forestry Rights Deed" which you currently enjoy. The NSW Agricultural Tenancies Act can confer certain Share Farming rights in favour of growers particularly in respect of FEA group leased properties. At a practical level however Share Farming rights can prove academic should there be a failure to properly maintain plantations.

4.3 Grower Loans

A number of growers secured loans to finance their investment from FEA or other external parties where we suspect repayment obligations continue to exist irrespective of the outcome of your respective investment.

5 ALTERNATE REALISATION STRATEGIES

5.1 Pooled Arrangement

FEAP's Managed Investment Schemes for 2003-2009 have a predominant common factor where the majority of the plantations are located in Northern NSW / South East Queensland and major viability issues are attaching to their respective future.

The original sales concept of timber from each of the MIS's was for it to be sold as wood-chip in Newcastle or Brisbane. This presumption is not viable because of prohibitive transport costs.

We have retained an Expert Forestry Consultant to assist us in identifying alternative local sales markets. We suspect the opportunity of such markets to come to exist will be related to the availability of a longer term sustainable resource not necessarily having validity based upon timber being supplied by an individual MIS.

This issue lends itself to the possibility of "consolidating" the 2003-2009 Schemes in the process requesting growers contributions on an annual basis (as opposed to historic arrangements) to the costs of maintaining the various plantations. Obviously growers will be concerned as to the proximity of returns as representing a justifiable basis on which to contribute future funding.

There are a number of other factors which weigh in favour of Consolidating 2003-2009 Schemes. These being:

- Notwithstanding the results of our ongoing enquires in establishing individual scheme viability the confidence of some growers preparedness to contribute to future funding undoubtedly could "waive". Any drop off in grower funding contributions has the capacity to affect the continued viability of any individual scheme.
- We suspect that by the selective retention of individual plantations within each of the 2003-2009 MIS's that viability of a reduced number of properties can come to exist. There may be a potential to renegotiate rent in respect of external leased properties. Internal leased properties rental automatically moves

with movements in the cost of external leased properties.

- On a commonsense basis having regard to issues of transport costs some properties have practical access difficulties associated with them where they should be "dropped" from the pool of ongoing retained properties. This of course will have an impact on the continuity of resource required by any alternate local market identified by us. This issue again lends itself to the concept of all schemes being "pooled".
- In contemplating any "pooling" of retained 2003-2009 Scheme properties there will of course be a need to "weigh" the value of the respective Schemes residual investment for the purpose of redefining the interests of growers in that "pool".

The possibility of a pooled 2003-2009 Scheme will be considered by us over the next two weeks as part of our deliberations in attempting to visualise project viability for the individual Schemes.

5.2 Implications for Interested Parties

We have received numerous unsolicited enquiries concerning the possibility of purchasing FEA Group properties as representing the different MIS's in full and/or looking to assume the role as Responsible Entity for each of FEAP's MIS's. Assumption of the role as Responsible Entity for FEAP's 2003-2009 Schemes carries a number of obligations including issues associated with major forestry maintenance requiring attention in the immediate future. Furthermore all of the enquiries have been predicated on a notion of achieving individual scheme viability. It has not been possible to progress these enquiries to any meaningful conclusion to date because of issues associated with:

- Availability of reliable resource estimates; and
- Potential sales opportunities for product with its attended associated transport costs which have been identified as representing a major issue impeding the prospect of individual scheme viability.

Should we reach a point of achieving project viability on an individual Scheme and/or "pooled" basis then the prospect of property sales improve whilst at the same time the possibility of the role as Responsible Entity being assumed by a third party increases. It is currently impractical from a growers perspective to consider assumption of the role as a Responsible Entity by a third party given the practical difficulties which currently continue to exist; including issues of significant "break" costs.

5.3 Interested Parties

We have held preliminary discussions with four interested parties to date in relation to a potential reconstruction of the Group. These parties after executing Confidentiality Agreements have been provided with basic financial data, certain contractual information and an overview of the FEA Group. We have not provided them with a formal Information Memorandum.

Our preliminary discussions reveal:

- They are not prepared to consider funding the Group under its current structure of growers not being obliged to fund lease and maintenance costs throughout the duration of each scheme;
- An arrangement with the Banks will need to be reached before any financial restructure can be put forward;

The consequence of discussions with potential interested parties is that no group restructure will be implemented unless it is possible to determine a financially viable business moving forward. As detailed throughout this Report we are currently investigating a number of different opportunities which are yet to be finalised to determine a financial viability for these schemes. We will Report back to you in this regard shortly.

6 CONTACT DETAILS

Should you have any queries in relation to the above please contact either James Terkalas or Peter Kefalas of my office on 02 8263 2300.

Yours faithfully
FEA Plantations Limited

Brian Silvia
Joint Administrator