

Report to Growers for Tasmanian Forests Trust No 3 (1995 Managed Investment Scheme)



FEA Plantations Limited
(Administrators Appointed) (Receivers
Appointed)
Report 26 July 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



1 EXECUTIVE SUMMARY

1.1 Purpose of Report

The purpose of this Report is to provide growers in Tasmanian Forests Trust No 3 (“Trust”) with an overview of:

- ▲ BRI Ferrier involvement as Administrators;
- ▲ Projected Returns to Growers;
- ▲ Proposed Harvesting;
- ▲ New Trust operational structure;
- ▲ Proposed Wind-up of Trust.

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 management function for FEAP’s forestry investment 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 (including Trust) which has involved planning and developing realisation strategies, budgeted cash flows, likely grower financial outcomes and stress testing of the realisation plan.
- ▲ Negotiating with potential plantation contract harvesters.
- ▲ Documenting negotiations with harvest 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.

Section 3 of this Report details budgeted future costs for the 1995 MIS.

3 RETURNS TO GROWERS

3.1 Payments pre 14 April 2010

Initial thinning harvests occurred in 2005, 2006 and 2007 where growers received interim distributions of \$613.57, \$353.53 and \$522.36 per hectare respectively, resulting in distributions of \$109,828.85 in 2005 \$63,281.69 in 2006 and \$93,501.90 in 2007 in all totalling \$266,612.44.

Distributions paid to growers are detailed in a Table in Section 3.2 of this Report.

3.2 Operating Expenses Pre Administration

Prior to our appointment, FEA Plantations as the Responsible Entity had entered into a Management Agreement with FEA to undertake all Scheme operations for \$1 per month per Scheme. This agreement was terminated by the FEA Receivers & Managers shortly after their appointment.

As a result of the termination of the Management Agreement all ongoing Scheme operating expenses will be incurred / funded at “market rates” as opposed to the previous subsidised arrangements. Scheme operating expenses moving forward include a proportionate share of:

- ▲ Head office costs including employees.
- ▲ Administrators costs and expenses.

3.3 Projected Returns

Prior to our appointment, FEA Plantations as the Responsible Entity was planning the proposed harvest of the No 3 Trust plantations. We are in the process of completing this planning process whereby formal harvest documentation is being prepared for lodgement with appropriate Government authorities.

Preparatory to commencement of the harvest we have negotiated a Master Log Purchase and Management Agreement with Pentarch Forestry Services (VIC) Pty Limited (“Pentarch”), a suitably qualified timber purchaser, to re-commence and complete the harvest and sale of Trust’s plantations (see Section 5 of this Report). An amendment applicable to Trust No 3 for the purpose of the Master Agreement with Pentarch remains to be finalised.

Detailed below is an analysis of the expected cash returns to growers for the Trust having regard to the following issues:

- ▲ Historical distributions paid to growers prior to 14 April 2010.
- ▲ Anticipated future distributions payable to growers net of harvest costs and other administrative costs including our remuneration.

- ▲ Funding required (as in the past) by growers to facilitate payment of ongoing property lease rentals, maintenance and insurance expenses for the forthcoming year.

Project 1995 Budgeted Realisations			
	Form of Growers Investments		
	Annual Contribution	Prepaid Lease	Total
Hectares under management	93	86	179
Woodlots under management	279	258	537
	per Hectare	per Hectare	Gross
Distributions			
Distributions paid pre 14 April 2010	\$1,489.46	\$1,489.46	\$266,612.45
Anticipated distributions net of project funding post 15 April 2010*	\$3,413.12	\$3,413.12	\$610,948.39
Anticipated Total Distributions	\$4,902.57	\$4,902.57	\$877,560.83
Less: Grower Payments			
Contributions paid by Growers post 15 April 2010	\$389.76	\$94.87	\$44,406.70
Assumed Total Grower Payments	\$389.76	\$94.87	\$44,406.70
Net Return to Growers post 15 April 2010 per Hectare	\$4,512.81	\$4,807.70	\$833,154.13
Assumed Return per Woodlot post 15 April 2010*	\$1,504.27	\$1,602.57	
* Estimate only			

3.4 Qualification to Anticipated Grower Returns

BRI Ferrier has not audited the information provided to the Administrators by FEA or FEA Plantations as the Responsible Entity. Whilst the Administrators believe that the material contained in this Report, particularly projected returns are accurate, we cannot and do not warrant the accuracy of them. The projections make assumptions about future events which potentially are outside our control as Administrators to accurately warrant. Therefore we expressly disclaim any liability in the event there are variations in them as included in this Report.

3.5 Comparative Analysis of Anticipated Grower Returns against PDS / Prospectus

Forecast returns to growers as detailed in the PDS/Prospectus were based upon assumed future growth rates for the plantation trees over time. This estimate is known as the Mean Annual Increment (“MAI”). Investment returns as originally projected to Growers were not based on monetary values (real dollars) due to the extended investment time period (in excess of 10 years) but based on an assessment of potential forest plantation growth rates.

The PDS forecast MAI was 28 whereas the MAI for Trust No 3 over its duration is 17.6 MAI as assessed by an Independent Forestry Report.

As you are aware from past Managers Reports, two of the four properties on which the Scheme has planted trees have had reduced growth rates. The major elements impacting the growth rates include:

- ▲ High altitude of one of the properties resulting in cold air exposure.
- ▲ High winds.
- ▲ Soil issues.

Additional fertiliser was applied throughout 2008 to improve the growth rate however this has not had the desired effect of improving the MAI.

Based on our discussions with a number of industry experts the MAI is unlikely to improve in time at a rate which would exceed the ongoing

costs of the Trust. Consequently based on the recommendations given to us and in view of FEAP’s previous decision to proceed with the harvest we have determined to proceed with this initiative.

3.6 Timing of Future Growers Distributions

We anticipate making an interim distribution to growers prior to Christmas 2010 with a final distribution in April 2011 / May 2011 – earlier if possible.

It is anticipated the final distribution will occur within six months of harvest completion which is always subject to change. We will keep growers informed of future developments as they occur.

4 COMMERCIAL DEVELOPMENTS

The FEA Group has become the subject of insolvency administration due to a failure to honour financial commitments of the parent company FEA. The Banks as secured creditors through its Receivers have sought to impose legal obligations / sanctions in respect of the 1996 to 1999 MIS’s where those issues potentially include disenfranchising the interest of growers. We are concerned that the action commenced by the Receivers has the capacity to be activated in respect of the 1995 Scheme.

Consequently we have taken a variety of steps to protect grower interests by:

- ▲ Initiating an immediate harvest of the plantation whilst seeking to satisfy ongoing plantation financial obligations as they occur including payment of rent and other outgoings.

- Seeking to protect the Scheme from landlords seeking to obtain possession of the respective properties because of issues associated with FEAP's parent company insolvency.

Final clear fall harvesting was in the process of being finalised by FEAP to commence shortly after our appointment. On completion of the harvest FEAP would have wound up the Scheme. In light of the actions by the Receivers we believe it may be a necessity to wind up the Scheme whilst at the same time seeking to maintain its commercial operation. We comment further on the issue of winding up the Scheme in Section 7 of this Report.

5 HARVESTING

5.1 Harvest Agreement

FEA Plantations as the Responsible Entity entered into a Master Log Purchase and Management Agreement for the harvest of the FEAP plantations on 2 July 2010 with Pentarch who is an independent harvest and sales manager.

A variation of that Agreement specifically applicable to Trust No 3 is currently being negotiated and will be executed on completion of consent being obtained from the relevant Government authorities allowing the harvest to commence.

The Agreement as already negotiated provides for:

- Pentarch to act as a manager of the harvest process.

- Pentarch to enter into contracts and incur debt with third party harvesters and haulage contractors on its own account.
- Pentarch to sell harvested trees to third parties with monthly payment obligations to FEAP as Responsible Entity.
- Pentarch to provide a security deposit to FEA Plantations as the Responsible Entity to guarantee its payment obligations for logs harvested.

5.2 Harvest Completion

Based on commencement of harvest following consent by the relevant Government authorities, it is expected to be completed by December 2010.

6 ONGOING OPERATION OF TRUST

6.1 Operational Funding

Ongoing operational costs will be funded by lease, maintenance and insurance invoice contributions as historically rendered to growers and from harvest proceeds. Funds received from growers are to be segregated separate to all other FEAP/FEA group activities.

6.2 Grower Invoices

FEA Plantations as the Responsible Entity has an entitlement to invoice growers for \$58,648.10 plus GST for lease, maintenance and insurance expenses as projected for the period 1 July 2010 to 30 June 2011

(insurance is billed 1 October to 30 September). Payment of invoices rendered will fund all the Scheme operating expenses for the next 12 months (which includes lease, maintenance and insurance expenses). In this regard we will be sending your individual grower invoice in the next week, which is due for payment by 31 August 2010.

Should the anticipated operating budget result in a surplus any excess contribution by growers will be refunded to them on completion of the harvest.

If you fail to pay your individual grower invoice it is likely you will jeopardise the financial viability of the Scheme and your future distributions (budgeted in Section 3.2 of this Report) are likely to be significantly reduced. A failure to pay your invoice in all probability will result in the loss of your investment.

The requirement for ongoing growers contributions are to some extent mitigated, by funds held by Sandhurst as Custodian (\$103K) on behalf of growers on our appointment but in circumstances where FEAP as a Responsible Entity has insufficient funds available to it to meet all operating costs in the ordinary course as and when they are incurred. This is in an environment where the failure of some growers to pay lease, maintenance and insurance expenses could result in a forfeiture of all growers' rights in the Scheme. This would be a disastrous result where the plantations have reached a level of maturity preparatory to harvest which was about to be commenced.

Some growers are currently indebted to FEAP for previously rendered but unpaid invoices. These invoices on an individual basis will be offset

against either current cash at bank held in the MIS custodian account or against future harvest proceeds. Any unpaid residual balances will be rendered shortly.

6.3 New Custodian

Prior to our appointment, Forest Enterprises Australia Limited (Administrators Appointed) (Receivers & Managers Appointed) ("FEA") acted as the Custodian for FEA Plantations as the Responsible Entity. The Custodian holds the Trust No 3 assets on "trust" ("custody") for FEAP as Responsible Entity on behalf of the Scheme growers.

As a result of FEA's insolvency, the Custodial agreement with it terminated. We have appointed Sandhurst Trustees Limited ("Sandhurst") to act as the new Custodian.

Sandhurst was established in 1888 and is one of Australia's largest Custodian and Trustee operators. As an independent Custodian, it is a subsidiary of Bendigo and Adelaide Bank Limited.

6.4 Annual Managers Report

FEA Plantations has an obligation to provide growers with annual managers and independent forester's reports based on the performance of the Trust over the previous year. We have not mailed these reports to growers however they are available for inspection on our website at www.briferrier.com.au.

7 WINDING UP OF TRUST

7.1 Winding Up

You are aware prior to the Receivers and our appointment to members of the FEA Group, the harvest of the Trust was being prepared for harvest by management.

Having investigated the financial position of the Scheme, and issues attaching to the Banks security we are of the opinion the Scheme ought to be wound up where part of that process should include commencement and completion of the tree harvest by an appropriate “purchaser” of logs / pulp with the subsequent distribution of the net proceeds to growers.

Consistent with our belief it will most probably be desirable to wind up the Scheme where appropriate Court Orders need to be sought to achieve that objective. In a formal sense we are obliged to give you notice that an Application will be made to the Court seeking orders that we be appointed to wind up the Trust where appropriate related Directions will be sought.

Reasons necessitating a winding up Trust No 3 include:

- ▲ There is a statutory requirement to wind up a Trust on completion of its objective.
- ▲ The winding up provides the Trust’s Liquidator with greater flexibility in managing trust expenses and the potential to disclaim onerous obligations.

- ▲ By winding up the Trust we believe growers will receive their final distribution within a shorter time frame.

Current action initiated by the Banks Receivers to remove the “Transfer of Profit a Prendé” currently registered on individual property titles (1996 to 1999) could potentially disenfranchise those growers interests. This makes the issue of winding up the Trust more important should the Receivers initiate similar proceedings in respect of the Trust No 3.

Should precipitated action be commenced jeopardising the future of the Trust we intend making an Application to the Court seeking to wind up the Trust. Should individual growers disagree with this intention please advise us in writing within 10 days supporting your reasons.

7.2 Cost of Winding Up

On completion of the winding up of the Trust we will provide all growers with a detailed analysis of costs in harvesting and winding up the Trust.

8 CONTACT DETAILS

Should you have any queries in relation to the above please contact either Ronnie Staub or Wilson Zeng of my office on 02 8263 2300.

Yours faithfully
FEA Plantations Limited



Brian Silvia
Joint Administrator