

Annual and Final Report to Growers for
Tasmanian Forests Trust No 2
(1994 Scheme)
ARSN 093 165 505

FEA Plantations Limited As
Responsible Entity
(Subject to Deed of Company Arrangement)

14 December 2015

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Joint and Several Deed Administrators

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BRI Ferrier

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1 EXECUTIVE SUMMARY

The purpose of this Annual and Final Report is to provide Growers in Tasmanian Forests Trust No 2 (‘the Scheme’) with a summary of the Scheme’s operations prior to and following clear fall harvest. The Report also includes a notice of winding up of the Scheme including the proposed final distribution.

As you are aware, Peter Krejci and I are the Joint and Several Deed Administrators of FEA Plantations Limited (Subject to Deed of Company Arrangement) (“FEAP”), the Responsible Entity of the Scheme.

Pursuant to Section 601NC of the Corporations Act 2001, the Responsible Entity may wind up the Scheme if it considers the Scheme’s purpose has been achieved.

We propose to wind up the Scheme because the purpose of the Scheme has now been accomplished. The harvesting and sale of the trees grown during the currency of the project has been completed.

After discharging the liabilities of the Scheme, we propose making a fourth and final distribution to Growers/Members. At this stage we anticipate the fourth and final distribution will be approximately \$249,000, although the final outcome will depend upon the actual costs incurred in attending to the winding up procedures required by statute.

2 RETURNS TO GROWERS

2.1 Pre-appointment Distribution to Growers

Initial thinning harvests occurred in 2003 and 2004 and Growers received interim distributions of \$2,248.45 and \$545.99 per hectare respectively, giving a total distribution in 2003 of \$373,242.70 and in 2004 of \$90,634.34.

2.2 Post appointment Distributions to Growers

Please find the attached a summary of Receipts and Payments for the Scheme for the period 14 April 2010 to 31 October 2015.

An analysis of the costs associated with harvesting and the expenses of the Scheme follows in the subsequent sections below.

2.2.1 Actual Distribution to date

Since our appointment we have undertaken clear fall harvesting of the Scheme plantation and made three distributions to the Growers/Members of the Scheme totalling \$560,000.06 as detailed below:

Distribution	Date	Total Distribution Amount
First Distribution	30 November 2010	\$150,000.02
Second Distribution	25 February 2011	\$260,000.02
Third Distribution	22 June 2011	\$150,000.02
TOTAL		\$560,000.06

The above table does not include the initial thinning harvests proceeds that were distributed to Growers in 2003 and 2004 prior to our appointment. This was a total distribution of \$463,877.04 representing an amount of \$2,794.44 per hectare measured against the 166 total hectares under management for the Scheme.

2.2.2 Administration Expenses – Voluntary Administration Period

Following our appointment as Administrators of FEAP on 14 April 2010, the Banks on 3 June 2010 appointed Deloitte as Receivers to FEAP. Our role as FEAP's Administrators was to look after the interest of the creditors of FEAP, where the majority of creditors are Growers/Investors. The Banks as secured creditors appointed Deloitte, as Receivers, to look after their interests

Significant legal fees and investigative costs arose during the course of the Administration of the Scheme, where such costs have either been incurred seeking advice predominately in respect of issues relevant to protecting Growers interests but also in respect of matters to refute security claims by the Banks. Had FEAP not challenged the arguments and claims by the Receivers that FEAP had no entitlement to deal with the Scheme assets, FEAP would not have been in a position to proceed to harvest the timber comprised within the Scheme. All the Voluntary Administrators and Deed Administrators remuneration referred to in this Report has been considered and approved by either the Committee of Creditors or the Committee of Inspection during the course of the Administration.

The escalation of costs of the Administration have for the most part, been driven by the frustrating posture adopted by the Receivers and their unwillingness to interact with the Deed Administrators.

Growers will no doubt be aware prior to our appointment, FEAP as the Responsibility Entity had commenced harvesting the Scheme plantations. Harvesting was subsequently suspended following our appointment on 14 April 2010. Immediately following our appointment, the Receivers terminated the Forestry Right Deed and Head Management Agreement which existed between FEA and FEAP in relation to the MIS plantations.

During the period from our appointment on 14 April 2010 to 30 June 2010, considerable resources were directed towards investigating the Scheme's structure, its profitability and viability in order to prepare for the first meeting and Report to Growers and Creditors. The work performed was with the support of the Creditors' Committees and an informal Growers'

Committee. At that early point in the Administration, the level of Grower enquiries was significant including those from Grower's financial and legal advisors. The Administrator's costs incurred over this period in responding to grower enquiries, preparing for creditors meetings, issuing reports including statutory reporting and scheme administration and making four separate applications to the Courts in respect of convening Meetings of creditors totalled \$26,233.49.

The Receivers after appointment took control of all FEA properties other than the plantations, including FEA's books and records. This resulted in an inability to access FEA's management records, both as to the maintenance of the forests and to the system procedures that had been established from inception of the Scheme. FEAP was concerned to satisfactorily address the systems of management in particular those relating to Occupational Health and Safety, insurance and statutory licences so as to be in a position to undertake the harvest. By denying FEAP and the Administrators access to the plantations records, systems and workings was to prove to increase both costs and time to deal with the Scheme's assets.

During the Voluntary Administration period, considerable time and effort was directed towards:

- Dealing with the Banks' attempt to claim security over Scheme assets including the timber sale proceeds held by the former Custodian of the Scheme at the time of the appointment which were due to Growers.
- Seeking to protect the Scheme from the Banks' claim that their charges had been crystallised upon appointment of the Voluntary Administrators and had become fixed on the floating assets of FEAP.
- Taking steps to defend actions taken by the Banks through the Receivers, where they sought to impose legal obligations and sanctions in respect of the dealing with the Scheme plantation. Those issues had the potential to disenfranchise the interests of Growers in the Scheme
- The need to establish a new relationship with a suitably qualified forestry organisation, capable of re-commencing and completing the harvest and sale of the clear fall harvest. On 2 July 2010, FEAP entered into a Log Purchase and Marketing Agreement with Pentarch, an independent harvest and sales company. The Agreement provided for Pentarch to enter into contracts and incur debt with third party harvesters and haulage contractors on its own account. Pentarch would then sell harvested trees to third parties and account to FEAP monthly.
- Prior to our appointment, FEA acted as Custodian for FEAP holding the assets of the Scheme. As a result of FEA's insolvency, the Custodial Agreement with FEA was terminated. It was critical to appoint a replacement Custodian. The Administrators appointed Sandhurst Trustees Limited to act as the new Custodian including accepting the harvest proceeds of sale.
- Investigating the steps and procedures to wind up the Scheme. This, was in part, motivated by a desire to protect Growers rights where variously there had been assertions on behalf of the Banks relating to the extent to which their securities applied to the assets of the

Responsible Entity, FEAP. A strategy to wind up the Scheme would put “distance” between any claims as to the Scheme’s funds by the Banks.

The costs associated with addressing these complex matters totalled \$139,384.25 which was necessary to secure the value of the plantations and deal with the Bank’s attempts to claim security interest over Scheme assets thereby disaffecting the Growers. The work that was required to be undertaken by the Administrators was largely outside the normal requirements, but for the stance adopted by the Receivers in not making information readily available and opposing each and every step taken to protect Growers’ interests in the Scheme.

2.2.3 Harvesting

It was not until mid -June 2010 that we first obtained plantation data from the Receivers which had been previously developed by FEA Forestry personnel under a sophisticated plantation management system known as “Woodstock”. Under this program, it was possible to derive, by making various assumptions, an estimate of the value of the plantation at harvest.

We tested the assumptions made in that data and arrived at our own estimates of the prospective value of the plantation. We identified deficiencies in the original estimates prepared by the Receivers and sought a revision of our estimates by an independent Forestry Expert which lead us to the view that the plantation was considerably more valuable than initially identified by the Receivers.

Following our evaluation of the prospects of the Scheme, it was determined to resume harvesting which had come to a halt shortly after the appointment of Receivers on 3 June 2010. Our efforts were frustrated in an environment where the Receivers were taking steps to offer Smart Fibre Pty Ltd (Smart Fibre) for sale. Smart Fibre had provided the sales outlet to Japan for pulp where there was a limited availability of such “valuable” contracts in the market place. Smart Fibre was a 50/50 joint venture with Elders Group that failed to interact with FEAP despite a number of attempts to engage them as the proven and preferred sales outlet.

Another major concern for FEAP was that it not be obligated to reforest the land after the harvest. No arrangements existed for Growers to fund reforestation or rehabilitation requirements in Forest Practice Plans (FPPs) lodged by FEA on behalf of FEAP before our appointment; nor was there any disclosure of such a requirement in the Managed Investment Scheme Product Disclosure Statements. Flowing from this was the Receivers’ refusal to sign FPPs required by the Forest Practices Authority in Tasmania prior to re-commencement of harvesting thereby frustrating and blocking our efforts to resume the harvest.

With access to the Smart Fibre outlet denied to the Administrators of FEAP by the Receivers, an extensive search was undertaken to secure an agreement with a major forestry company to both undertake the harvest operations and source sales for the Scheme’s timber. Protocols were required to be established to address the procedures and methods required to perform the harvest operation. This included detailed evaluation of the statutory obligations of OH&S legislation and compliance with specific processes for forestry management.

It was not until late August 2010 that the harvest was able to resume on the Plantation. This was only possible due to the Administrators earlier actions in securing an arrangement with Pentarch

Forestry Services, a Victorian based company which at the time had limited operations in Tasmania.

In terms of ensuring a successful harvest outcome, it was important to minimise the cash flow impact of harvesting without the need to call upon the Scheme Growers' for future contributions. The agreement with Pentarch to fund harvest costs by deducting them from the eventual proceeds of the sale of timber was a positive move and avoided the need to call upon Growers to prop up what otherwise would have been a cash shortfall in the Scheme.

The costs involved in evaluating and testing the Woodstock data forecasts; preparing the way for a resumption of harvesting, establishing the requisite protocols and mandatory legislative requirements to carry out forestry activity and the time involved in sourcing a capable forestry operator for the Scheme along with supervising and monitoring the actual harvest amounted to \$178,582.97 as shown on the attached Receipts and Payments Schedule-Cost of Administering Harvesting

Fortunately, from a timing perspective, the gross stumpage price of the Scheme timber that FEAP was able to secure through the arrangement with Pentarch on resumption of harvesting was to prove significant when measured against the events that were to immediately follow. As Growers will be aware, woodchip prices collapsed in April 2011 following the catastrophic Tsunami in Japan a month earlier closing the market for at the time the only readily available and valuable source for Australian woodchip.

A summary of the harvesting realisation for the Scheme shows the following:

**FEA Plantations Limited
Scheme Realisations**

	Total	per Hectare	per Woodlot
Hectares / woodlots under management		166.00	510.00
Distributions			
Distributions to Growers for harvest thinnings pre 14 April 2010	463,877.04	2,794.44	909.56
Distributions to Growers post 14 April 2010	560,000.06	3,373.49	1,098.04
Anticipated Final Distribution to Growers*	249,000.00	1,500.00	488.24
Anticipated Total Distributions	\$1,272,877.10	\$7,667.93	\$2,495.84
Estimate*			

3 PROPOSED FINAL DISTRIBUTION TO GROWERS

At this stage we anticipate a fourth and final distribution will be made to Growers totalling approximately \$249,000, although the final outcome will depend upon the actual costs incurred in attending to the winding up procedures required by statute. We have included a summary of the estimated future receipts and the expenses anticipated from the 1 November 2015 to completion of the winding up. The majority of the anticipated costs are related to the processing of the final distribution, legal and compliance costs and statutory charges.

The Scheme has held the balance of the harvesting proceeds, since May 2011, however, it was unable to distribute the balance of funds to Growers/Members as a result of an unresolved claim by the Receivers, that the Scheme and FEAP were obligated to remediate the FEA freehold land occupied by Scheme plantations. The cost of a land remediation program would have been substantial and would have eroded the majority, if not all of the residual funds.

On 5 September 2013, after a number of legal proceedings and negotiation through Mediation, the Receivers agreed to a settlement with the Deed Administrators, which allowed for the distribution to the Scheme Grower/Members to proceed after a sale of the FEA internal estate occurred. This sale settled on 17 February 2015. The latest Report to Growers and Creditors dated 23 March 2015 detailed the outcome of the sale of the FEA internal estate. Since the beginning of the harvest in August 2010, regular reporting to Growers has been provided on the status of the Scheme including 10 Section 445F Reports to Growers and Creditors.

On 2 April 2015, we through our solicitor formally notified the Receivers of our intention to distribute the residual funds to Growers/Members as the FEA internal estate had been sold, and asked they advise any objection. No objection was received. FEAP has also confirmed with the Forestry Practice Authority that it does not have any liability claim against FEAP as the Responsible Entity of the Scheme.

Considerable effort was also put in to obtain ASIC's relief from various financial reporting and audit requirements, which would have cost in excess of \$100K in professional costs.

FEAP is now in a position to distribute the residual funds after costs to Growers/Members. The residual funds will be distributed to Growers/Members pro rata according to the ratio that the Growers' woodlots bears to the total woodlots in the Scheme (pursuant to clause 20.4 of the Constitution).

4 WINDING UP THE FUND - MEMBERS' RIGHT TO CALL A MEETING

FEAP is permitted to wind up the Scheme unless a Meeting of Members is called to consider the proposed winding up within 28 days of this Notice.

Initial Scheme Members have the right pursuant to Division 1 of Part 2G.4 of the Corporations Act 2001 to request for the calling of a Member's Meeting to consider the proposed winding up of the Scheme and to vote on any extraordinary resolution Growers/Members propose about the winding up. If no Meeting of Members is requested within the 28 day period contemplated, FEAP proposes to automatically proceed to wind up the Scheme.

The cost associated with the calling of any Meeting of Members will be deducted from the balance of funds currently held in the Scheme. As the purpose of the Scheme has been accomplished the Deed Administrators do not recommend that a Meeting of Members be called to consider the winding up. In providing an estimate of the costs to completion no allowances has been made for the expense that would be incurred in conducting a Meeting of Members.

The expectation is for the final distribution to Growers/Members in the Scheme to be processed during the month of January 2016. It will be delayed if a Meeting of Growers/Members is called.

Please refer any queries you may have in relation to this notice by emailing fea@briferriernsw.com.au or telephone (02) 8263 2300.

Yours faithfully

FEA Plantations Limited (Subject to Deed of Company Arrangement)



BRIAN SILVIA

Joint and Several Deed Administrator

FEA Plantations Limited (Subject to Deed of Company Arrangement)
Tasmanian Forests Trust No. 2 (1994 Scheme)
Summary Receipts and Payments (inclusive of GST)
for the period 14 April 2010 to Completion of Winding Up

	R&P for the period 14/4/2010 to 31/10/2015	Estimated Future R&P for the period 1/11/2015 to Completion of Winding Up	Estimated R&P for the period 14/4/2010 to Completion of Winding Up
Cash at Bank Carried Forward Balance	-	\$305,023.32	-
Receipts to 31 October 2015			
Harvest Proceeds	802,564.34		802,564.34
Unallocated Grower Receipts	11.00		11.00
Bank Interest	54,006.89	1,500.00	55,506.89
Pre-appointment - Harvest Proceeds	577,480.45		577,480.45
GST Refund	3,251.88	6,003.00	9,254.88
	-		-
Total Receipts During Administration Period	\$1,437,314.56	\$7,503.00	\$1,444,817.56
Payments to 31 October 2015			
Pre-appointment expense			
Pre-appointment Management Fees Owing on Appointment	32,428.97		32,428.97
Pre-appointment Debtors to FEAP	404.30		404.30
	-		-
Total Pre-appointment expense	32,833.27	0.00	32,833.27
Administration Cost			
Custodian Fee	15,675.00	2,475.00	18,150.00
Deed Administrators' Remuneration (including work performed to obtain bank's release of claim against 1994 Scheme harvesting proceeds)	69,200.23	40,212.00	109,412.23
Disbursements	51,080.75	300.00	51,380.75
Bank Charges	2,427.13	100.00	2,527.13
GST Payment	18,241.72		18,241.72
Legal Fees	21,116.47	7,037.00	28,153.47
Meeting Room	177.46		177.46
Other Meeting Costs	751.07		751.07
Professional Costs	4,218.26		4,218.26
Reimbursements for Government Charges paid by FEAP on behalf of the Scheme	337.35		337.35
Reimbursements for Legal Costs paid by FEAP on behalf of the Scheme	8,711.35		8,711.35
Report Printing and Postage	368.49	500.00	868.49
Statutory Advertisement	109.12	300.00	409.12
Voluntary Administrators' Remuneration	26,233.49		26,233.49
	-		-
Total Administration Cost	218,647.89	50,924.00	269,571.89
Securing and Maintaining Scheme Assets			
Forestry Insurance	10,403.00		10,403.00
Insurance - Public liability and Workers Compensation	400.23		400.23
Insurance (No GST)	27.31		27.31
Voluntary Administrators' Remuneration to secure plantations and dealings with bank securities issues	139,384.25		139,384.25
	-		-
Total Securing and Maintaining Scheme Assets	150,214.79	0.00	150,214.79
Cost of Administering Harvesting			
Deed Administrators' Remuneration	13,574.55		13,574.55
Professional Fees	3,935.34		3,935.34
Voluntary Administrators' Remuneration	165,008.42		165,008.42
	-		-
Total Cost of Harvesting	182,518.31	0.00	182,518.31
Growers' distribution			
First to Third Distribution (unpresented cheques to be reissued to ASIC Unclaimed Monies totalling \$11,923.08)	548,076.98	11,923.08	560,000.06
Fourth Distribution		249,679.24	249,679.24
	-		-
Total Growers' distribution	548,076.98	261,602.32	809,679.30
Total Payments During Administration Periods	1,132,291.24	312,526.32	1,444,817.56
Current Cash Balance	\$ 305,023.32	Nil	Nil