

Report to Creditors and Growers

Forest Enterprises Australia Limited

(Subject to Deed of Company Arrangement)

(Receivers and Managers Appointed)

ACN 009 553 548

("FEA")

FEA Plantations Limited

(Subject to Deed of Company Arrangement)

ACN 055 969 429

("FEAP")

20 March 2015

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Deed Administrators

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BRI Ferrier

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1 EXECUTIVE SUMMARY

This is a Report by Brian Silvia and Peter Krejci, the Deed Administrators of Forest Enterprises Australia Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (“FEA”) and FEA Plantations Limited (Subject to Deed of Company Arrangement) (“FEAP”) (“the Companies”).

This Report provides you with an update to the status of the Deed Administrations of FEA and FEAP and in particular addresses the current standing of matters covering:

- The Sales Process concluded by the Receivers, Deloitte, in relation to the FEA internal land and trees;
- 1994 Scheme Growers – Distribution;
- The expected distribution to Growers in the 1995 to 2001 Schemes;
- The outcome for Growers in the discontinued 2002 to 2009 Schemes – Pool B;
- Unsecured Creditors - Pool A and;
- Timberlands Fund

2 SALE OF THE FEA INTERNAL ESTATE

The Receivers, Deloitte, appointed to the FEA Group of companies by the secured Bank lenders, have informed the Deed Administrators the FEA internal land and trees have been sold for \$125.5M.

The principal buyer is a private timberland investment firm, namely Resource Management Services LLC (“RMS”), which we understand has its headquarters in Birmingham, Alabama.

The sale of the majority of the internal estate has settled except for two blocks of land valued at approximately \$1.6M. Based upon the advice provided to us by the Receivers, our understanding is these properties are expected to settle in the coming weeks.

In addition to the sale just concluded with RMS, a parcel of land comprising a mahogany plantation in the Northern Territory was sold for \$550K in September 2014. The buyer was unrelated to RMS.

By any measure, the headline sale price is a very disappointing outcome for all creditors, particularly Growers and Unsecured Creditors. The result has pronounced significance when measured against the benchmark of independent valuation assessments performed as far back as December 2010 and June 2011 showing estimated values of the land and the trees of circa \$382M and \$359M respectively. It is worthy of note that the June 2011 estimate was delivered post the natural disaster (Japanese Tsunami) that destroyed the market for the FEA plantation resource.

The entire settlement proceeds from the sale of the FEA internal land and trees are still in the possession of the Receivers.

Under the terms of the settlement agreement documented as the Implementation Deed in September 2013, there is a sharing of the net proceeds of sale between the Banks and the Growers.

As we are yet to receive these settlement funds, an accurate calculation of the distribution to individual Scheme Growers and Unsecured Creditors is not possible.

What is clear however is that distributions to Growers will be progressive and will only occur once we have the funds in hand.

As at the date of this Report, the Receivers are still holding the entire sale proceeds.

The Receivers have notified us that sales expenses and retained amounts of \$20,536,457 have been deducted from the proceeds of sale. We have sought further detailed explanation from the Receivers to substantiate what, at first glance, is an extraordinary amount. On preliminary estimations, a potential claw back of \$4M of these gross deductions has been identified.

The anticipated total distributions to Growers across their respective Schemes are not only predicated on a recovery of the identified deductions of \$4M but also on a realisation of funds from the harvesting of the externally leased estate.

As you may recall, there was an intention to progressively harvest by 2017, the Scheme plantations growing on externally leased land in Tasmania ("external estate"). However, given the slow improvement in the timber price in the past year and the risks associated with the dynamic changes in Tasmania's forestry industry, the Deed Administrators, in consultation with the Creditors Committee, have determined to commence to harvest now, with the expectation of completing this by the end of 2015. This will also shorten the wait period for a distribution to Growers in the Schemes that hold externally leased trees. As a distribution is dependent on the completion of the harvest, the final distributions to Growers in 1997-2000 Schemes, in particular, can only occur after receipt of harvesting proceeds from the external estate. There is an expectation that this may be achieved by the first quarter of 2016, unless a delay in harvesting is experienced due to unfavourable climatic conditions.

In the coming weeks, we will be writing to individual Growers in their respective Schemes setting out the position of each account and the calculation of the anticipated first round distribution, based upon the sale proceeds, expected to be ultimately received from the Receivers.

Growers in the 1995 to 2001 Schemes who have failed to address outstanding compulsory contributions will influence the overall potential distribution. We will continue the processes to enforce the obligations embedded in the Grower's Lease and Management Agreements to ensure an equitable outcome for all Scheme members.

Subject to further scrutiny of the sale costs listing provided to me by the Receivers, we anticipate the following outcome to individual Grower Schemes and for Creditors.

3 TIMING OF DISTRIBUTION

The expected timing of the receipt by the Deed Administrators of the Growers' share of the current net sale proceeds from the Receivers is by the end of March 2015, pursuant to the Implementation Deed.

The intended timing of the anticipated first distribution to Scheme Growers is set out hereunder including the categories applying within Schemes:

3.1 1994 SCHEME

We currently hold \$308K in the 1994 Scheme Custodial Account pending distribution.

Now that the FEA land has sold, we will seek confirmation from the Receivers releasing FEAP from rehabilitation obligations. This will enable us to issue a final distribution to Growers and wind up the 1994 Scheme.

We anticipate making a final distribution of approximately \$605 per woodlot to Growers in the 1994 Scheme by 30 June 2015.

3.2 1995 TO 2001 SCHEMES – “S” INVOICE PAYMENTS

Those Growers who have made payment of the “S” invoice dated 16 October 2014 will have these payments returned (net of GST) after deducting the insurance expense as detailed on the individual Grower invoice.

We anticipate the distribution occurring by 30 June 2015 subject to the receipt of our share of the net proceeds of sale from the Receivers.

3.3 1995 TO 2001 SCHEMES – VOLUNTARY CONTRIBUTIONS

Growers who have made Voluntary Contributions during the course of the Administration will have these payments returned (net of GST) after applying the premium as detailed in the Explanatory Memorandum dated 23 September 2013.

We anticipate the distribution occurring for this category of Growers by 30 June 2015 subject to the receipt of our share of the net proceeds of sale from the Receivers.

3.4 1995 TO 2001 SCHEMES – MANDATORY CONTRIBUTIONS

Growers, who paid mandatory Contributions (required in accordance with their lease and management agreements) received after 14 April 2010, will have a partial distribution (net of GST), after deducting insurance expenses and pre-appointment outstanding amounts and applying the premium as detailed in the Explanatory Memorandum dated 23 September 2013.

Until we have received the net proceeds of sale from the Receivers due to us under the Settlement Agreement, an accurate determination of the percentage distribution for the category of Mandatory Contributions in each Scheme is not possible right now.

We will communicate with individual Growers in their respective Schemes setting out the position of each account and the calculation of the anticipated first round distribution over the course of the coming weeks.

An accurate determination of the timing of the initial distribution for this category of Contributions is not possible at this time.

The initial partial distribution in respect of the mandatory component of Contributions to Growers will vary between Schemes.

3.5 POOL B – 2002 TO 2009 SCHEMES

The estimated Pool B assets available for distribution will see a partial return of the Voluntary Contributions paid by 2002-2009 Growers.

Again, until we have received the net proceeds of sale due to us under the Settlement Agreement, an accurate determination of the percentage distribution for this category of Contributions is not possible.

For those 2002 Growers who made payment of their compulsory obligations, we anticipate making a distribution at the same percentage as the Voluntary Contributions repayment to 2002 -2009 Scheme Growers.

We will be communicating with individual Growers in these Schemes in the coming weeks setting out the position of each account and the calculation of the anticipated distribution.

3.6 POOL A – UNSECURED CREDITORS

The FEA Pool A assets will comprise 20% of the loan book collections received by the Receivers since 5 September 2013 capped at the lesser of \$2M or 10% of the value of admitted claims of FEA and FEAP Ordinary Unsecured Creditors. The Receivers advise they have collected over \$10M from the loan book since 5 September 2013, which is sufficient to repay the maximum amount of \$2M should the value of admitted Creditors' claims exceed \$20M.

The current estimated admissible Unsecured Creditors' claims are circa \$33M, and hence the estimated return is likely to be 6 cents per dollar of claim admitted. The outcome falls within the range of estimates previously provided to Unsecured Creditors.

We are currently holding approximately \$373,000 of the capped amount of \$2M. We are yet to receive the balance of funds from the Receivers that will allow us to adjudicate the Unsecured Creditor claims.

3.7 TIMBERLANDS FUND

Included in the sale of the FEA internal estate are the properties forming part of the Timberlands Fund. The Receivers hold the funds available for distribution to Timberlands Fund minority holders.

Due to the lack of information provided by the Receivers, the Deed Administrators are not in a position to provide an estimated return to Timberlands Fund minority holders.

The minority holders should direct all enquiries in relation to a future distribution to the Receivers

4 OBSERVATION OF SALE PROCESS

The Deed Administrators had no capacity to influence the sale process nor were we involved in the sale negotiations. The process was run and controlled by the Receivers.

The Receivers' sale advisor, Gresham Advisory Partners ("Gresham"), called for expressions of interest in the entire FEA internal estate in December 2013.

The sale process has been lengthy. Extensive due diligence performed by the successful bidder, obviously added to the time the process has taken to complete. No doubt, the costs of the receivership

increased given the added time taken to conclude the sale. The additional cost indirectly influences the share of net proceeds flowing to the Growers and Unsecured Creditors.

Gresham received 9 initial indicative offers from institutional bidders and over 200 retail bids. Unfortunately, the retail offers were not capable of acceptance within the context of the proposed Macquarie MIS Transition Sale relating to the 1995 to 2001 Schemes.

Gresham also considered a “mix and match” approach to sell the internal estate to a combination of retail and institutional buyers, however, this approach did not reach a price capable of acceptance.

We understand the Receivers and Gresham were seeking to achieve a headline sale price of circa \$283M. This was consistent with our One-line Sale option price range of circa \$225M to \$265M adopted in providing the estimated returns as contained in the Creditors Report dated 21 October 2013, the 1995-2001 Scheme Explanatory Memorandum dated 23 September 2013 and the Supplementary Explanatory Memorandum (“Supp EM”) dated 1 November 2013.

Gresham has indicated the binding offers subsequently submitted were substantially lower relative to the indicative offers originally provided. The parties who made binding offers indicated the primary reasons for the movements between their indicative and binding offers included:

- Downward revision of agricultural land prices for the Mainland properties.
- Concern with the distance to markets and an unwillingness to commit to a second crop rotation weighed heavily on the price offering;
- A lowering of expectations in respect of the outlook for chip prices for the Mainland and Tasmania; and
- Other revisions relating to alternative use and rehabilitation of selected Tasmanian properties.

As a general comment, the sale process, conducted in an environment where competing offerings of other major forestry assets may have had an adverse impact on the final price achieved for the FEA estate. The sale of the Gunns estate concluded in mid-2014 preceded the FEA sale process, which may well have established a benchmark for forestry assets particularly throughout Tasmania and the eastern seaboard.

Furthermore, the buyers appear to have had low confidence levels in the value of forestry assets despite the slow, but improving timber market of the past year. Although difficult to quantify, the cost of the remediation of the plantations back to productive agriculture land was, we believe, a significant driver for the price ultimately achieved.

5 REFLECTION ON THE SETTLEMENT PROPOSAL

During the course of the Administration, the Deed Administrators have extensively consulted with and had the support of members of the Committee of Creditors and representatives of the FEA Growers Group (FEAGG), in promoting outcomes designed to benefit Growers.

As you may recall, the Deed Administrators have adopted a proactive stance; working constructively with the FEAGG, introducing and negotiating with various independent proponents of restructure proposals, which with the benefit of hindsight would have offered a potentially superior result to the

sales outcome now achieved. Unfortunately, these restructure proposals were either rejected by the Banks outright or frustrated by legal disputes by the Receivers.

The stance adopted by the Receivers left the Deed Administrators with little option other than to institute legal action to defend Growers' rights of entitlement to the plantation assets against challenges from the Banks' representative, Deloitte. The litigation came to represent an attempt by the Receivers to terminate the leases through forfeiture on the one hand and the challenge for relief against forfeiture, by the Deed Administrators on behalf of the Scheme Growers on the other.

The rejection by the Banks of the initial Macquarie Bank proposals that aimed to achieve a satisfactory outcome for all parties was, we believe, a missed opportunity. Had the Banks considered and accepted Macquarie Bank's conditional offer for the acquisition of their debts in April 2012 they would, on the Deed Administrators best estimation, have written off a little over 12% (pre holding costs) of the debts owed to them at the time. The requirement for a very broad and restrictive indemnity sought by the Receivers and the Banks meant that the Macquarie Bank proposal was not capable of being further developed.

Despite the Bank's rejection, Macquarie Bank continued to work with the Deed Administrators attempting to find a solution to the possible adverse ruling on the forfeiture of lease proceedings in the Supreme Court and establish a funding mechanism, enabling continuation of the earlier Managed Investment Schemes. In essence, Macquarie Bank agreed to provide funding support to the Deed Administrators, to pay back rent if adjudicated by the Court and to underwrite all rent going forward, not funded by the Growers.

This support and commitment was against a backdrop where Growers had become weary in their pledge to continue to fund the legal challenge. In addition, over 30% of 1995 to 2001 Scheme Growers who had prepaid their rent were not prepared, voluntarily, to contribute to the ongoing costs of litigation.

Faced with uncertainty on the ultimate outcome of the legal dispute with the Receivers and the reluctance by Growers to continue funding the legal defence, the Deed Administrators and Receivers as directed by the Court entered a Mediation process in early 2013 to formulate a resolution to the dispute between the competing Creditors.

In November 2013, the Growers in the 1995 to 2001 Schemes passed resolutions, ratifying the agreement reached by the Receivers representing the Banks and the Deed Administrators acting for the benefit of the Growers and Unsecured Creditors.

This decision enabled the Receivers to engage Gresham as the Sales Advisor and offer the FEA internal land and plantations for sale.

It is worthy of reflection in that whilst the settlement with the Receivers may appear to have been reached out of desperation, the Court findings in late 2013 in relation to what was known as the Willmott Forests case, had the potential to destroy our argument mounted for relief against forfeiture proceedings.

Since the commencement of this journey just on 5 years ago, when Grower expectations of a positive outcome were built on a robust and expanding export market for woodchip, the dynamics of the

market have changed materially. A natural disaster and an absence of buyers for forestry assets following a number of failed Managed Investment Schemes have no doubt shaped this outcome.

The Japanese Tsunami in March 2011 closed the export market for Tasmanian plantation woodchip. Woodchip exports to Japan commanded a premium and underpinned the total Tasmanian market.

The Receivers' protracted sales process also raises issues surrounding maintenance of the estate throughout the receivership period and conjecture on the high cost of rehabilitation of the land following harvest, factors that no doubt shaped the sale price.

6 OUTSTANDING ISSUES BEFORE FINALISATION OF DEED ADMINISTRATION

The intention is to finalise the Deed Administration by the first quarter of 2016.

The tasks required before the finalisation of the Deed Administration include;

- Review of Receivers' sale costs deduction;
- Receipt of net sale proceeds from Receivers;
- Harvesting of the Schemes externally leased estate in Tasmania;
- Winding up of 1995-2001 Schemes;
- Adjudication of Unsecured Creditors' Proof of Debt claims;
- Distributions to Growers and Unsecured Creditors and;
- Termination of FEA and FEAP's Further Varied Deeds of Company Arrangement ("DOCAs")

7 DEED ADMINISTRATORS' SUMMARY ACCOUNT OF RECEIPT AND PAYMENT

A detailed analysis of FEA and FEAP's Receipts and Payments up to 31 January 2015, is attached as **Annexure 1**.

Full particulars of all Receipts and Payments are reported to the Australian Securities and Investments Commission half yearly. Copies of the reports lodged are available on request.

8 BRI FERRIER CONTACT DETAILS

The FEA team may be contacted by email to fea@briferriernsw.com.au Given the expected large volume of Grower phone calls and the resulting waiting time for response, the Growers and other Creditors are encouraged to send their enquiries by email, so matters can be addressed in a more detailed and speedy manner. Please ensure to quote Grower numbers in all correspondence.

**FOREST ENTERPRISES AUSTRALIA LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
(RECEIVERS AND MANAGERS APPOINTED)
FEA PLANTATIONS LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)**


BRIAN SILVIA

Joint and Several Deed Administrator

