Report to Creditors and Growers

under Section 445F of the Corporations Act 2001

Forest Enterprises Australia Limited

(Subject to Deed of Company Arrangement)
(Receivers and Managers appointed)
ACN 009 553 548

FEA Plantations Limited

(Subject to Deed of Company Arrangement)
(Receivers appointed)
ACN 055 969 429

16 September 2011

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Deed Administrators

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Business Reconstruction & Insolvency

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GLOSSARY OF TERMS

The Banks	The Secured Creditors collectively or individually referred to; Commonwealth Bank of Australia, Australia and New Zealand Banking Group Limited
Creditors	Unsecured Creditors, Secured Creditors and Employees of FEA & FEAP. Growers and landlords claims are defined as Unsecured Creditors
Receivers	Refers to Deloitte; the Receivers of FEAP and the Receivers and Mangers of FEA
FEA Group	Group of companies including FEA, FEAP, FEA Carbon, Tasmanian Plantations
FEA	Forest Enterprises Australia Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)
FEAP	FEA Plantations Limited (Subject to Deed of Company Arrangement)(Receivers Appointed)
TPUT	Tasmanian Plantations Unit Trust (Subject to Deed of Company Arrangement)(Controller Appointed)
FEAC	FEA Carbon (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)
FPP	Forestry Practice Plans; required to govern harvesting and maintenance works on plantation timber estates
Growers	Investors who own Woodlots under the various FEAP Schemes
RE	Responsible Entity
RFM	Rural Funds Management
Scheme	16 Forestry Investment Schemes managed by FEAP referred to collectively or individually as the 1994 to 2009 Schemes
DOCA	Deed of Company Arrangement
MISs	Managed Investment Schemes
Termination Notice	A written notice from the landlord to the tenant stating that the tenancy is terminated
Notice of Default	A notice of default is a notification given to a borrower stating that he or she has defaulted under a provision of the lease and giving a predetermined deadline to rectify the default
FRDs	Forestry Right Deeds - A document recording the proprietary right to timber on land to which it relates
Syndicated Facility Agreement (SFA)	A loan made by more than one lender to a single borower

1 EXECUTIVE SUMMARY

1.1 MEETING OF CREDITORS TO CONSIDER EXTENSION OF THE FEA & FEAP DOCAS

A Meeting of FEA Plantation's Creditors has been convened as follows:

Date:	Tuesday, 27 September 2011
Time:	10:30am
Location:	Grand Chancellor Hotel, Launceston, TAS
Webcast:	http://www.brr.com.au/event/86520

Notice of this meeting is attached as **Annexure 1.**

A Meeting of Forest Enterprises Australia's Creditors has been convened as follows:

Date:	Tuesday, 27 September 2011
Time:	2:00pm
Location:	Grand Chancellor Hotel, Launceston, TAS
Webcast:	http://www.brr.com.au/event/86521

Notice of this meeting is attached as **Annexure 2.**

Annexures 3 & 4 are respectively the Proxy and Proof of Debt forms for the FEA Plantations Creditors Meeting. **Annexures 5 & 6** are respectively the Proxy and Proof of Debt forms for the Forest Enterprises Australia Ltd Creditors Meeting.

Creditors need only to complete the respective Proof of Debt forms if they have not done so previously during the Administrations. Creditors wishing to participate in the meetings, but not attend personally, are required to complete the respective proxy forms. Corporate representatives attending the meetings also need to complete the respective proxy forms.

We request that creditors including Growers complete and return the relevant forms for the purpose of expressing their views on the Companies' future and in particular whether the terms of the current Holding DOCAs should be varied.

The separate meetings of FEAP and FEA will deal with the business set out in the respective notices of meetings. Creditors in each company will separately consider the resolutions put to their respective meetings.

The first resolution proposed by the Deed Administrator as Chairman at each meeting will be to resolve that the Deeds of Company Arrangement be extended until 30 September 2012. Should this resolution be passed by creditors, no further resolutions will be put to the meeting.

In the event that creditors do not pass the resolution to extend the DOCA, the Chairman will then propose a resolution that the company be placed in liquidation.

The Deed Administrators recommend that creditors when completing their proxies vote in favour of each resolution. Should both resolutions fail, the company will be handed back to its directors and the ability

of any subsequent liquidator to seek to void uncommercial transactions that occurred in 2009 and 2010 will be lost.

Creditors have previously been advised that Deeds of Company Arrangement (DOCAs) for both FEA and FEAP are due to expire on 30 September 2011. The Deed Administrators recommend Creditors resolve to extend the Deed of Company Arrangement for both companies to 30 September 2012. Proxy and Proof of Debt forms are attached for Creditors Meetings to be held 27 September 2011 for both FEA and FEAP. Growers are entitled to submit proxies and proof of debt claims against both FEA and FEAP. Landlords and Unsecured and Secured Creditors are entitled to participate in both meetings to the extent that they are creditors of each of the companies.

Creditors will recall we were appointed Voluntary Administrators (on 14 April 2010) of FEA and FEAP. Subsequently we were separately appointed as Deed Administrators to each of the companies on 14 December 2010. The Deeds of Company Arrangement have previously been extended to 30 September 2011 where it had been thought Rural Funds Management Limited (RFM) would facilitate a restructure of the group. The Secured Creditors, CBA and ANZ Banks had agreed to debt "standstill arrangements" pending implementation of the proposed restructure.

Pulp mills in Japan, to which Australia exports wood chip for processing, were closed as a result of the Japanese tsunami earlier this year. The effect of that development saw the export of wood chip from Tasmania close down 'for a period of time' where local processers are now beginning to resume operations. Additionally that development had the effect of changing the financial parameters, in which FEA could be reconstructed by RFM. "Backers" to the RFM proposal substantially downgraded their offer to Growers so as to make it unacceptable. The RFM proposal gradually "fell away" in July 2011.

The period of Administration has been held in an environment of 'competition' of interests between those of the Banks as Secured Creditors and Growers. The Banks obtained security over FEA group assets about one year prior to our appointment. Growers on the other hand had for up to 15 years funded the establishment of plantations and their ongoing maintenance.

Without group company support, FEAP's cashflow in the normal course was negative. Historically FEAP had the benefit of certain arrangements with FEA group of companies that went to underpin its financial viability.

Critically, an internal property leasehold document referred to as a 'Deed of Variation' executed on 23 December 2009, at the request of the Banks, meant FEAP's operations were no longer viable. Although FEAP held a FEA funding 'letter of comfort', it had no effect without the concurrence of the Banks who at that stage held security over the group's most liquid assets. The Deed of Variation, if it is found to have effect, is capable in our view of being set aside as an uncommercial transaction in the event of FEAP's liquidation.

As Administrators we have sought to join with the Banks Receivers on an equitable, common basis offering both internal group-owned properties and grower's trees together for sale whilst also being prepared to engage in group reconstruction discussions. That offer of co-operation has not always been embraced where following the failure of the previous RFM restructure proposal and a recent Full Federal Court Appeal by the Receivers; they have now sought to terminate leases of all internal group owned properties. The consequence of the Receivers actions could lead to the loss of Growers interests in the estate.

This recent action by the Receivers contrasts with contemporaneous efforts by them to recently invoice Growers for rent for the period since our appointment; where since 2000 the only FEA group entity entitled to, and which has invoiced Growers, has been FEA Plantations Limited, the Responsible Entity for each of the individual Managed Investment Schemes covering 1994 – 2009. We as FEAP's Administrators continue to be the only persons entitled to invoice Growers.

The environment for export of wood chip has recently changed for the better. An RFM backed consortium is working on a new restructuring proposal where discussions are continuing. Separately the Growers-sponsored Black Tree's replacement Manager Proposal for each of the Schemes remains in abeyance where Grower meetings previously adjourned have now been reconvened for 4 October 2011.

For reasons outlined in this Report we believe it is important that the two Deeds of Company Arrangements continue to remain in place because:

- Continuing negotiations with two separate groups backed by international funds, who are seeking to acquire the Banks' interest in FEA and undertake a restructuring with Growers and unsecured creditors. Extension of the Deeds will enable these negotiations to continue with the aim of reaching an outcome which is acceptable to the Banks, Growers, Unsecured creditors and other various stakeholders.
- The need to preserve various property leases (both internal and external) which could be prejudiced in the event of liquidation. The trees on internally leased land have a net present value of $100 million and $12.5 million on externally leased land.
- The need to preserve Growers interests as represented by the legal structure of both companies within the context of steps taken by the Receivers to terminate internal leases.
- The benefits which the continued existence of the Deeds may bring to the possible sale of the plantation estate on a joint basis between the Receivers and ourselves as representing Growers and Unsecured Creditor interests; and
- The need to preserve the period of 'relation-back' in respect of transactions before our appointment as Administrators. An expiration of the Deeds on 30 September 2011 would see the loss of the period of 'relation-back' which currently dates from 14 April 2010. Preservation of that date through the extension of the Deeds is important in considering whether any pre-appointment transactions may warrant consideration as to being set aside.

For the reasons outlined above we consider it in the interests of the Banks, Unsecured Creditors and Growers to approve an extension to the Deeds of Company Arrangement for both FEA and FEAP for a period of 12 months. Should it be determined at any time in the future that it is in the interest of the various stakeholders for the Companies to be placed in liquidation, we would then convene further Meetings of Creditors to consider the continued viability of both Deeds.

2 INTRODUCTION

This is a Report by Brian Silvia and Peter Krejci, the Administrators of Deeds of Company Arrangement for FEA and FEAP due to expire on 30 September 2011. It should be read separately as to the affairs of both FEA and FEAP and their respective Creditors Meetings to be separately held on 27 September 2011.

FEA and FEAP entered into substantially similar Deeds of Company Arrangement which provide (as amended) that they automatically terminate on 30 September 2011 unless extended. The Deeds were entered into as "Holding Deeds", to allow a process of restructuring and reconstruction of the Companies and associated Managed Investment Schemes, under which it is was contemplated further Deeds would be proposed. Two other companies in the FEA group – FEA Carbon Pty Limited (FEAC) and Tasmanian Plantation Pty Limited (TPUT) – also entered into similar Holding Deeds to allow a proposal for reconstruction.

Since the failure of the RFM restructuring proposal, we as Deed Administrators have pursued several different avenues to enhance realisations for all Creditors. These included seeking to engage the Receivers and the Banks in a sales process for the plantations, which would enable an equitable distribution of sale proceeds between stakeholders. We continue to pursue alternate restructuring proposals which will enable the Banks to exit the FEA transaction whilst also seeking to defend the rights of Creditors generally and Growers through various Court proceedings.

We consider it is in the best interest of all Creditors for the Deeds of Company Arrangement to be extended until 30 September 2012 to enable this process to continue. Separately as Deed Administrators we continue to investigate potential causes of action available to a liquidator should FEA and FEAP be placed in liquidation.

We understand Growers and Creditors may consider the Administration process to date has taken an exceptionally long time with no current resolution achieved. The FEA group is a complex grouping of assets, with many competing creditor claims over them. We continue working towards resolution of these competing interests.

This Report details for creditors, the current status of both Deeds Of Company Arrangement, including various issues of harvesting, legal proceedings and restructuring efforts.

3 CHRONOLOGY OF EVENTS LEADING TO INSOLVENCY APPOINTMENTS

Set out below is a chronology of significant events prior to the appointment of the Administrators and the Receivers to FEA and FEAP. They have been detailed so as to enable Creditors to appreciate the development of competing interest claims.

New Bank Facility

- In January 2008, FEA concluded arrangements by which Australia and New Zealand Banking Group Limited (ANZ) joined the group's long term banker, the Commonwealth Bank of Australia ("CBA") in a "club" facility, under which ANZ and CBA respectively contributed $70 million and $60 million.

Breach in Loan Facility

- By late 2008, FEA was in breach of profit-based financial ratio covenants contained in the separate facilities concluded with CBA and ANZ. ANZ and CBA wished to obtain common bank facility documentation and agreed to dispense with compliance covenants.

Banks seek to convert to Secured Facility

- In early 2009, the Banks and FEA concluded a "Term Sheet" (a form of summary agreement for variation to the facilities), which involved the grant of security to the Banks where, in recent years, they had lent without security. The effect of granting security was to give the Banks priority debt repayment if the group failed, and in that event to allow them to intervene directly in the companies affairs by appointing Receivers. The Term Sheet also provided for cross - guarantees of the borrowings by all group companies.

Unsecured Bank facility converted to Secured Facility

- On 23 April 2009, co-incidentally the date on which one of the group's main competitors, Timbercorp failed, FEA granted a Fixed Charge over most of its assets and entered into a Syndicated Facility Agreement ("SFA") with the Banks.

Additional Bank Charges executed

- On 22 May 2009, each company in the FEA group entered into comprehensive fixed and floating charges and guarantees securing repayment of all amounts owed by FEA to the Banks.
- Over the ensuing weeks, FEA's directors and staff identified several inadvertent errors in that the charges appeared to extend to assets held within MISs, although this had not been FEA's, or apparently, the Banks' intention. Steps were taken to remedy some, but not all, of these errors.

Appointment of Deloitte to report to the Banks

- One of the terms of the SFA was that FEA obtain an external accountant's report into its operations. In conjunction with its Banks, it engaged Deloitte (now the Receivers) in July 2009. They reported to the Banks on 28 October 2009 and provided their report to FEA in November 2009.

Security Documentation reviewed by the Banks' Lawyers

- Separately from October 2009, the Banks' lawyers reviewed the banks' securities. We have not been provided with a copy of their report to the Banks. The FEA group we are advised were not provided with a copy of any report.

FEA loan covenant breaches

- With the reduction in MIS revenue, FEA from at least 31 December 2008 was persistently in breach of the lending covenants in the SFA. In particular it failed to maintain the required coverage of Earnings to Interest. The Banks successively dispensed with or waived compliance with these ratios on the basis that the group was subject to review by Deloitte and the Banks lawyers.

FEA raises equity and Banks apply proceeds to reduce debt

- FEA undertook a 1:1 rights issue and placement in order to raise capital to bridge its funding needs raising $39 million in September 2009 where the banks had indicated that they would allow the company to retain funds raised for working capital. When the funds were forthcoming from shareholders in November 2009, the Banks required most of the funds raised; net of costs be used to reduce the balance of the Banks' loans denying the company access to the new capital for working capital purposes.

New Master Lease requirement

- In December 2009 the Banks lawyers requested that FEA and FEAP enter into a Master Internal Property Lease. This lease sought to combine the properties leased under the 2000 Standard Head Lease (covering properties in the 1994 to 2002 Schemes) and the 2003 Master Lease (covering properties already the subject of the 2000 standard form of Head Lease and the 2003 to 2009 Schemes). This new lease would have imposed a new higher market rent for the properties and effectively created a cross default of all MISs should one Scheme fail to pay rent. Ongoing drafts and emails continued until 22 December 2009; however no lease could be agreed.

Banks seek Registered Charges to Schemes Property

- Lawyers on behalf of the Banks wrote to FEAP in December 2009 stating that the Banks required FEAP as Responsible Entity to execute what are known as 'Featherweight Charges' on behalf of each of the Schemes, making the Banks secured creditors within each of the Schemes. This requirement was rejected by FEAP.

Banks seek Restructuring plan from FEA

- In early December 2009 (slightly more than 6 months after granting the charges), the Banks, when replying to a further request for waiver of SFA financial covenants, required FEA to prepare a viable reconstruction plan by the end of the following month and to explain its deviations from past budgets, as well as seeking additional commitments from the group. FEA provided a plan in January, but the Banks did not regard it as viable.

Banks require Lease Deed of Variation as interim step

- On 22 December 2009 the Banks' lawyers forwarded FEA and FEAP a draft Deed of Variation for internal property leases. This document sought to change retrospectively past leasing arrangements and in particular apply them to properties acquired before the 2003 Master lease executed on 23 June 2003. All earlier properties had been the subject of a $1.00 base rent payable by FEAP for their respective terms. The Deed of Variation sought to validate leasing payments on all internal properties from 1 July 2004 irrespective of whether they had been correctly charged in accordance with the lease terms.

Deed of Variation amended before Execution

- On 23 December, the Banks' lawyers amended the proposed Deed of Variation to include a clause which imposed a future rents increase of almost 40% on all properties including:
    - Those where Growers had historically fully paid all rent due directly to FEA (before 2000) and;

- Introduced rentals for properties previously the subject of the nominal rent arrangements.

Group Solvency Issues

- In December 2009 the company received legal advice questioning the solvency of the FEA group.
- On 28 December 2009 the Banks formally extended their facilities.
- On 31 December 2009 FEA announced the extension of the Banks facilities.

Further funding sought

- From January 2010, and in earnest from March 2010, the companies sought to raise funds by disposing of assets and/or seeking commercial partners. They were unsuccessful in identifying any means of either of repaying the Banks' loans in full, or of obtaining alternate finance sources on terms satisfactory to the Banks.

Banks deny funding requests

- On 29 January 2010 FEA requested a drawdown of $4 million from the remaining equity raising. CBA denied the request; ANZ funded it however they required it to be reimbursed. The group put a restructuring plan to the Banks which was rejected on 24 February 2010.
- 16 February 2010 Banks request no further drawings on overdraft facility.
- 19 February 2010 CBA extended the conditional suspension to 26 February 2010.
- 24 February 2010 Company requested suspension from ASX listing, which took effect for an indefinite duration from 26 February 2010.
- The Banks hereafter refused further funding; indicate restructure not feasible; terminate conditional suspension.

FEA certifies Breach of Facility and Banks seek to fix their Security

- 1 March 2010 FEA, at the request of its Banks, certified that it was in breach of the terms of the SFA. The Banks treated this advice as converting the banks' floating securities into fixed securities, so that the companies could only deal with their assets with the Banks' express consent.
- 3 March 2010 the group announced extension of the ASX suspension.

Notice of Default Served

- 5 March 2010 the lawyers for the Banks, served notice of default on the group.

FEA seeks 'Standstill' with Banks

- 26 March 2010 FEA group requests "standstill" to 1 April 2010 and consideration of extension to 15 April, or 15 May if agreement reached with Pentarch Holdings or Paharpur Cooling Towers, who had expressed willingness to assist in refinancing.

Banks remove access to working capital

- 1 April 2010 Banks refused to allow the use of proceeds of realisation of secured assets to fund working capital needs and asserted that working capital needs should come from external sources. The Banks required a response by 8 April 2010 with respect to an equity raising.
- 12 April 2010 Banks fix charges.

Banks stop FEA from making payments

- 13 April 2010 the Banks cancelled transfers from FEA trading account at approximately 5.30pm.

Fea group approaches BRI Ferrier

- 13 April 2010 group Directors approached BRI Ferrier in relation to potential appointment at about 5.30pm.

FEA and FEAP enter Voluntary Administration

- 14 April 2010 Voluntary Administrators and then Receivers were appointed.

For a more detailed analysis of the Chronology of Events Leading up to Receivership and the related documentation affecting creditors and Growers please refer to **Annexure 7.**

4 HARVESTING

4.1 INTERNALLY LEASED PROPERTY HARVESTING

Harvest of plantations on internal properties has in the recent past been frustrated by the Receivers refusal to sign Forest Practice Plans (FPPs) required by the Forest Practices Authority in Tasmania prior to commencement of harvest. One of the issues raised by the Receivers is the alleged requirement of FEAP to reforest or rehabilitate individual properties when harvested. No arrangements existed for Growers to fund this reforestation or rehabilitation requirement in FPPs lodged by FEA on behalf of FEAP before our appointment; nor is there any disclosure of such a requirement in the Managed Investment Scheme Product Disclosure Statements.

Growers as part of their initial investment funded preparation of individual group owned properties before planting. Consequently as Administrators of FEAP we consider that the responsibility to reforest attaches to the owner of the land and not Growers.

We previously commenced proceedings in the Federal Court in Victoria seeking relief on this issue. It is our lawyers' advice these proceedings should now be encompassed in the proceedings for relief from forfeiture which are about to also in the Federal Court.

It must be noted that FEA charged FEAP (for 2001 to 2008 Schemes) rent equivalent to the average of the external rent paid by FEAP. The external leases provided that the landlords, not FEAP or the Schemes, were responsible for reforestation.

Notwithstanding disputes with the Receivers regarding the legal ability to commence harvest the reality since March 2011 has been that there has been no market for wood chip. Furthermore as the winter has been particularly wet in Tasmania it was otherwise impossible to harvest over this period.

It had been previously been our intention to fast track the harvest of earlier Schemes properties and, in the case of the 1999 Scheme, undertake thinning, neither of which have proved possible to this time.

4.2 EXTERNAL LEASED PROPERTY HARVESTING

With two exceptions of disputed property leases (currently the subject of legal proceedings with funds set aside) all rent on externally leased property due in respect of Schemes 1994 – 2002 has been paid. It has been calculated that the net present value of timber located on 1994 - 2002 External Leased Properties was in the order of $12.5 million, where we obviously intend to harvest.

We are hopeful in the next week of resolving one of the two disputed External Leased Properties where that particular lease includes rehabilitation obligations in respect of the property albeit not disclosed to Growers. Harvesting on that property which is expected to return in excess of $1 million for Growers' benefit should start shortly thereafter.

Growers will appreciate that the prospects of External Property harvesting have similarly been inhibited in recent months by the impact of the Japanese tsunami and winter weather conditions prevailing in Tasmania.

Continuation of the Deeds of Company Arrangements for both FEA and FEAP is important in the context of any continuing ability to harvest External Leased 1994 – 2002 properties. In the event of liquidation landlords who have been paid their rent to date during the period of Administration could in some instances exercise 'rights' to terminate leases on the basis of a 'default' arising from liquidation. Some external leased properties executed prior to 2000 were entered into in the name of FEA as opposed to FEAP who assumed the role of Responsible Entity from 30 June 2000, which requires that DOCA also to be extended.

5 LEGAL PROCEEDINGS

Following judgment in the Receivers' Appeal to the Full Federal Court, we have reviewed it with our lawyers and Counsel, determining strategies to best protect the interests of Growers and other Creditors of the FEA group. It should be noted there are many potential courses of action, however as Administrators we have focussed on those issues likely to provide a positive outcome for Growers and other Creditors. Potential causes of action include:

5.1 HIGH COURT APPEAL

The Receivers' Appeal to the Full Court of the Federal Court in relation to 2000 – 2008 Internal Property Leases primarily focussed on our ability as Administrators of FEAP to claim a credit of $11 million (provided by FEA under a 'letter of comfort') and to offset that credit against an obligation to pay rent under the 2003 – 2009 Internal Property Leases. The Court did not review the pre 2002 lease arrangements in any detail other than the question of the $11 million offset. The Trial Judge who considered the initiating Application for Directions noted a number of issues pertinent to the earlier leases which were not the subject of any specific finding in the Appeal Judgments.

Significantly the Court found that we were not entitled to offset the subject $11 million against the rental obligations due to FEA; however it did decline to make the Orders sought by the Receivers. The Receivers have since sought to act on the Courts' findings as to the offset entitlement in relation to the $11 million.

We presume they believe internal leases are in breach for non-payment of rent as a consequence of a notion the 2003 Lease and possibly the 2009 Deed of Variation act as a Master Lease in respect of all properties. We believe any Master lease in default can only apply to properties purchased post June 2003.

We consider pre 23 June 2003 properties (all 1994 – 2002 Internal Scheme Property Leases) were 'Stand Alone Leasing' arrangements not the subject of any subsequent Master Lease where the default and payment of rent or otherwise in one lease does not constitute a Default of all leases. Significantly in relation to earlier leases rent due from their respective inception dates was paid for the entire lease term and consequently there can be no question of unpaid rent due to FEA or other group companies. In other instances Growers had pre-paid rent due by them to FEA before 2000.

We have been advised the Full Court erred in its Judgment in that it failed to take into account some relevant recent case law when making its findings in relation to the question of entitlement to offset the $11 million due by FEA against rent otherwise due to it by FEAP. The $11 million had only been sought to be applied by us as an offset in respect of Schemes 2003 – 2009, not necessarily encompassing the same leases as those the subject of the Receivers initial application to the Federal Court. We have been advised that there are good prospects for success in appealing to the High Court.

The process of Appeal to the High Court commences with an application seeking Special Leave to Appeal being filed; in this case, last week. That Application should be determined within the next six months, which in the event it is successful, may ultimately take approximately two years to determine.

The Application for Leave to Appeal filed does not seek an injunction seeking to restrain the Receivers from dealing with the subject properties. Had such an Application been made, it would implicitly carry with it a personal undertaking as to damages by us as Administrators which we cannot possibly countenance having regard to all circumstances and in particular the limited funds available.

On the other hand, the Receivers acting in their view (presumably as a consequence of the Full Federal Courts findings), have now sought to terminate the internal property leases. They are now exposed to damages claim arising as a consequence of any wrongful repudiation of the existing leases by them.

Any damages claims have the potential to be worth significantly more than the current net present value of the timber, because in the event the Gunn's paper mill proceeds in Tasmania the value of wood chip is Australia is anticipated to increase significantly because its value will be augmented by the proximity of a pulp processing plant. Historical costs of transportation of wood chip to Japan would no longer apply.

The primary beneficiary of any successful Appeal to the High Court will be the 2003 – 2009 Growers. Significant funding has been voluntarily provided by many of them in the recent past where it had been anticipated that should the RFM restructure fail (as it did), areas of dispute in respect of the later Schemes were likely to develop with the Receivers.

No date has been set for the hearing of the Special Leave Application where the Receivers, if not satisfied with the Full Courts' determinations, similarly have an entitlement to appeal the Court's decision. We have no Notice of Intention by the Receivers seeking to appeal the Full Federal Courts Appeal determinations on the Receivers Application for Directions initially heard before Justice Finkelstein.

5.2 RELIEF AGAINST FORFEITURE

The application is of significance to Schemes 1994 – 2002, where there has been ongoing funding provided by Growers. The proposed Application also affects Growers in 2003 – 2009 Schemes in that as Administrators we will be seeking damages on their behalf due to the repudiation of their leases as a consequence of the Receivers issue of Notices of Termination. Creditors should note that the 1994 Scheme has been harvested and is unlikely to be part of the relief proceedings.

From 8 August 2011 the Administrators have received 12 separate notices of Default and Termination from the Receivers in respect of internal leases.

These Notices have claimed:

- Termination for a failure to maintain properties where maintenance has in fact been undertaken with the full knowledge of the Receivers for all 1994-2002 properties in Queensland, NSW and Tasmania.
- Demands for Rental Payments from the Receivers on properties not owned by FEA or TPUT.
- Default Notices referring to the 2003 Master Lease Agreement and other Default Notices on the same properties referring to the 2000 Standard form of Head Lease. Rent due under each of these leases is vastly different.
- Default Notices on properties citing a failure to maintain them where it was the responsibility of FEA to undertake maintenance at the relevant time.
- Default Notices on earlier scheme properties where 28% of all Growers had prepaid rent prior to 2000 directly to FEA.

The Receivers in issuing Default/Termination of Lease Notices have taken the view that it is possible to do so based upon a Consolidation of Notice for all properties. That process presumes that a Master Lease was in existence.

It is our legal advisors' contention the 2003 form of Head Lease could not apply to those leases which pre-dated it. Similarly the 2009 Deed of Variation does not have the effect of creating a Master Lease. It is our advisors' contention that the issue of a Common Notice of Default in respect of all Internal group properties may be found to have a fundamental enforcement flaw.

The Deed Administrators' legal advice considers that FEAP is entitled to seek relief against forfeiture on behalf of the Schemes. This relief will include;

- Confirmation that the 2000 Standard form of Head Lease is the applicable lease for all properties up to Scheme 2003 and the rent for the term of those leases payable by FEAP (as opposed to Growers) was discharged before June 2003.
- Recognition that Growers in the 1994 – 2002 Schemes who had prepaid their rent (direct to FEA) are entitled to occupy their respective woodlots until final harvest. This category of Growers represents approximately 28% of all Growers in the 1994-2002 Schemes.

- Confirmation FEAP as Responsible Entity is entitled to invoice the Growers and separately pay rent on internal properties to FEA; who under the Receivers control are obliged to offset any rent due by it to other groups companies against substantial loan accounts which exist between them.
- A claim for damages against the Receivers on all property leases (mainly the 2003 – 2009 leases) the subject of leave to Appeal to the High Court; arising as a consequence of their repudiation of the leases.
- Confirmation of the validity of the Growers FRDs registered on the properties from 2000 which pre date the Banks security taken in April 2009.

It is our legal advice that strictly speaking the Receivers ought to have issued separate Notices of Default in respect of individual properties save to the extent to which the 2003 Lease is applicable to post 2003 Scheme properties. Similarly, all properties at the moment are encumbered as a consequence of the registration of Forestry Rights Deeds in favour of Growers which predates all securities held by the Banks.

To the extent to which the Banks may commence proceedings to remove the Forestry Rights registered on title, these should be the subject of separate applications. Such applications would total at least 600 in number as there are no fewer than that number of properties with Grower's trees. Similarly from our perspective in seeking relief from forfeiture on properties there is an argument to suggest that there should be 600 separate applications.

To the extent issues exists between the Receivers and ourselves as to the need to conduct separate proceedings to determine each issue, it is in the interests of both of us to agree to determine each category of claim separately. To that extent it is the intention of our legal advisors to approach the Receivers/Banks legal representatives with the view to agreeing Terms of Reference as to the determination of issues which exist between us on the basis of representing a cost effective outcome from both parties perspective.

In formulating detailed Relief from Forfeiture Applications to the Court it is our intention to provide them in draft form to the Receivers/Banks beforehand seeking once again to achieve a common-sense approach to dealing with the competing interests of the various parties.

Advice given to us suggests that there are numerous fundamental flaws in the Receivers' position particularly as it affects those Internal Properties which represent the bulk of the net present value of the plantations. In particular this relates to Scheme years 1994 – 2002 where we have previously invited the Banks to participate with us in the sale of those properties on the basis of Growers continuing to pay their contractual rate of rent due to FEAP where they could be sold to a third party investor leaving Growers to pursue final harvest of their respective plantations.

In our view the action taken by the Receivers on behalf of the Banks in seeking to terminate the Leases is counter-productive to a favourable outcome from everyone's perspective, simply leading to compounded and continuing litigation where, even if the Banks wished individual properties to be sold, a mechanism already exists to achieve that end without the need for any litigation.

It is important (in the meantime) for Growers to continue to pay invoices rendered to them by the Administrators of FEAP. You will recall invoices had been rendered for the period to 31 October 2011. It is important that for the preservation of individual Growers Rights that they continue to pay the rent element of their invoices to us as a failure to do so could result in the removal of the Forestry Rights

Deeds registered on title. Invoices rendered to Growers will include legal fees which are entitled to be back charged under the respective Managed Investment Schemes. Similarly a charge is to be introduced in respect of remuneration due to us were approximately half of all remuneration incurred during the Administration to date remains unpaid.

Growers have not, so far, contributed to the payment of our remuneration which has either been previously funded by a voluntary contribution (2003 – 2009 Growers) and from the differential in rent due by Growers to FEAP and that separately payable by FEAP to FEA in respect of the 1994 – 2002 properties.

On examination of the group's Financial Statements we have determined FEAP has, in relation to the pre 2003 Leases, been historically significantly overcharged in respect of rent due on those properties. These overpayments or pre-payments of rent (being separate to the set off claim considered by the Full Court of the Federal Court in the Receivers Application for Directions) have historically been claimed by us as against FEA where the Receivers through a lack of response have declined to participate in its more accurate quantification.

6 RESTRUCTURING PROPOSALS

As advised, the RFM proposal previously approved by both the Banks and the Deed Administrators and recommended to Creditors and Growers was unable to be completed. The proposal was adversely affected by various events including the tsunami in Japan which resulted in the closure of much of the Japanese pulp industry. This significantly affected both the price of chip in Tasmania and the overall sales volumes able to be achieved. The reduction in prices meant forecasts based on historical prices significantly reduced the economics of the FEA group and any return to Growers. We, as the Administrators, were unable to reach an agreement with RFM and the Banks on a revised proposal.

Other parties had previously looked at FEA, however they discontinued work once the RFM proposal was accepted. Upon being advised the RFM transaction was unlikely to proceed one of the other parties has re-engaged with us seeking to structure a proposal which would be acceptable to the Banks, Growers and Unsecured creditors. We continue working with them; where this consortium includes an Investment Bank and a number of Hedge Funds. We have sought to simplify their proposed structure to enable quick acceptance by all parties. We are hopeful a formal proposal will be received in the near future.

It must be noted that for any proposal to be accepted it must be acceptable to the Banks and the Administrators. No potential 'purchaser'/'investor' will proceed until there is indicative agreement of all stakeholders.

We have recently re-engaged with another party (associated with RFM) who are highly advanced in a proposal to restructure the FEA group and its Schemes. Whilst we are hopeful of receiving an acceptable offer from at least one of the two groups mentioned, we continue to impress on potential investors the need for urgency in submitting proposals to us. Creditors obviously will be apprised of developments as they occur.

7 OUR RECOMMENDATION

We remain hopeful of exploring opportunities in respect of reconstruction with the secured creditors and their representatives, and with external parties. We have formed our view as to our recommendations on the basis that, creditors are better served by realising the assets of the companies and the Schemes they have sponsored from continuing the separate DOCAs.

We seperately recommend that each of FEA and FEAP should continue to be administered subject to their individual Holding Deeds of Company Arrangement and creditors should vote for the extension of them to 30 Septmber 2012.

The reasons for these recommendations include:

- Both FEA and FEA Plantations have entered into legal contracts for the benefit of the Managed Investment Schemes that provided 'liquidation' is an automatic event of default. The avoidance of these defaults secures the interests of Scheme members, and by doing so, enhances the prospect, such as it may be, of a return to other unsecured creditors and Growers.
- The holding DOCAs are necessarily interim; they require some further means of resolution, which may yet involve liquidation; however it is undesirable to proceed to liquidation at this stage because of its likely adverse impact on the Schemes.
- Extension of the Holding DOCAs preserves the status quo in relation to any future proceedings under the *Corporations Act* where past transactions may be considered to be set aside or voidable.

7.1 ALTERNATIVE RECOMMENDATION

If creditors are unwilling to extend the Holding Deeds of Company Arrangement, we consider it would be preferable for the companies to proceed into liquidation. Liquidation will preserve an early "relation-back date", being a date to which most recovery proceedings under the *Corporations Act* are referable. Preservation of any 'earlier' date enhances the prospect of a return to creditors from the avoidance of transactions concluded before our appointment.

7.2 RISK OF TERMINATION OF THE DEEDS

The third option conceivably open to creditors is to return the Companies to the control of their directors. This is not in the interest of creditors generally, or of those who might deal with the companies in the future where they are otherwise insolvent and their directors would otherwise be unable or unwilling to act in office. Moreover, termination of the Holding Deeds would risk forfeiture of access to the provisions of the *Corporations Act* that allow for the avoidance of any past Insolvent Transactions.

7.3 POTENTIAL LIQUIDATION

We have previously reported our assessment of the likely return to creditors of each of the companies in a liquidation and dividend prospects in our Section 439A Reports dated 11 November 2010 (Available at www.briferrier.com.au).

The estimated return under a liquidation scenario for each company has not changed materially. We believe that in all probability there would be no return to unsecured creditors save to the extent that any liquidation investigation reveals antecedent transactions capable of recovery in a liquidation.

While we consider the group in a liquidation scenario to be insolvent, we contemplate that certain transactions entered into it in the period from 2009 have varied the priorities of the payment from the group company assets. Specifically the group's affairs were restructured over time in ways that have tended to enhance the interests of its secured creditors at the expense of unsecured creditors, shareholders, and investors in the Managed Investment Schemes. Whilst we consider that investors in earlier schemes should be able to salvage a significant element of the value expected to be derived in those schemes by continuing their operation, we have concluded that there is significantly less value in the later schemes. The return on all Schemes is dependent on either a sale of assets or a restructuring of the group.

Liquidation would allow closer scrutiny of the dealings between group members, and between the group and its secured creditors; nonetheless, that scrutiny would only come at the cost of risking the breaches of contractual terms previously referred to, where the benefits of those contracts presently substantially outweigh the prospective benefit that may arise from an early liquidation.

7.4 FUTURE CONDUCT UNDER THE HOLDING DEEDS OF COMPANY ARRANGEMENT

We propose that the relatively more viable schemes, 1994 – 2002, should proceed to harvest.

We will continue to levy contributions, and to pursue payment by Growers in the Schemes who have not met contributions to date. We contemplate that these schemes will still provide a return to Growers significantly exceeding their contributions since our appointment and until harvest.

In due course, these Schemes may be transferred to a solvent Responsible Entity, with the effect that the risks of loss to the Schemes that could result from liquidation of either FEAP or FEA will be removed or reduced. However, as with proposals for reconstruction, no such entity is currently immediately available to execute an effective alternative proposal. Until arrangements regarding the obligations of the Responsible Entity to make rent payments are resolved, no Responsible Entity would be likely to accept appointment except on terms likely to be disadvantageous to Growers.

We propose that funds held to date in relation to these schemes continue to be applied in their management, and in meeting expenses, including internal rent, incurred in relation to them.

Additionally, we propose to invoke the clauses of the Constitutions which provide that a Responsible Entity may levy scheme members a fee in respect of the costs of preserving and enhancing the interest of their investments. This fee will go towards meeting the costs incurred to date, and which we expect to be incurred in defending Growers interests.

7.5 LATER SCHEMES

In relation to later Schemes, Growers have funded us to the extent of approximately $6 million. The terms under which these monies were voluntarily paid, were that we would refund unexpended funds in due course to the contributors.

Whilst acknowledging the entitlement of Growers to seek the return of the unexpended component of their contributions, we are also proposing an option whereby those contributions may be converted into a modified interest in the earlier Schemes used to defray costs likely to be incurred in the liquidation for the benefit of scheme members generally. As noted earlier, we are proposing to pursue an Appeal from the decision of the Full Federal Court to the High Court of Australia. A copy of an application for special leave, the first step involved in pursuing that appeal, is available from our website.

This change to the voluntary arrangement is something each grower must him/herself consider. This new proposal will be detailed further in the upcoming Growers Report which will be sent out next week.

8 DEED ADMINISTRATORS' SUMMARY ACCOUNT OF RECEIPTS AND PAYMENTS

For a detailed analysis of FEAP's Receipts and Payments up to 31 August 2011 please refer to **Annexure 8.** There are no receipts and payments for FEA.

9 DEED ADMINISTRATORS' REMUNERATION

As discussed at the last Meetings of creditors, the Committees of Creditors and subsequently the Committees of Inspection have reviewed and approved the remuneration of the Administrators. Should creditors vote to extend the DOCA, we will continue the process of having the Committees of Inspection review the Administrators remuneration.

At the date of this report, remuneration for which approval remains outstanding relates to the period 1 August to 27 September 2011.

10 BRI FERRIER KEY CONTACTS

All BRI Ferrier staff can be contacted on 02 8263 2300. For specific queries, please feel free to contact Matthew Jacobs or Ari Segal.

Brian Silvia
Joint Deed Administrator for
Brian Silvia and Peter Krejci

Annexure 1

FORM 529
CORPORATIONS ACT 2001

Subregulation 5.6.12(2)

NOTICE OF MEETING OF CREDITORS TO VARY DEED OF COMPANY ARRANGEMENT

FEA PLANTATIONS LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
(RECEIVERS APPOINTED)
ACN 055 969 429

NOTICE is given that a Meeting of the Creditors of the Company will be held at the Grand Chancellor Hotel, 29 Cameron Street, Launceston, Tasmania, 7250 on Tuesday, 27 September 2011 at 10:30am.

The Meeting will also be broadcasting live on the internet from the following website:

- http://www.brr.com.au/event/86520

A G E N D A

1. To receive and discuss the Deed Administrators' Report to Creditors dated 16 September 2011.

2. To consider the following motion:

   That clause 3.1.5 of the FEA Plantations Limited Deed of Company Arrangement be varied to replace "2011" with "2012".

3. If the preceding motion does not pass, to consider the following motion:

   That the Company be wound up.

4. Any other business that may be lawfully brought forward.

We attach a proxy form that should be used by Creditors in the following circumstances:

a. Creditors who are unable to attend the meeting but wish to appoint someone to vote on their behalf.
b. Representatives of Creditors that are companies.
   In this case the Creditor company should:
   i. Execute the proxy under its common seal; or
   ii. Have the proxy signed by 2 directors or by a director and the secretary; or
   iii. Have the sole director sign the proxy if applicable; or
   iv. Have the proxy signed by someone authorised under seal, or by the directors, or sole director, as applicable to sign, and if required by the Chairman of the meeting, provide evidence that the person signing the proxy form is empowered to sign.

In accordance with Regulation 5.6.23(1) of the Corporations Regulations, Creditors will not be entitled to vote at this meeting unless they have previously lodged particulars of their claim against the Company with the Administrators.

Particulars or proofs lodged in the past are effective for this meeting. You only need to provide further particulars now if you wish to participate in this meeting and have not previously provided them.

Creditors' proxies must be delivered to this office by 2.00pm on Friday, 23 September 2011.

Please forward your proxies to this office in the post, via email to fea@briferrnernsw.com.au or by facsimile on (02) 8263 2399.

DATED this 16th day of September 2011.

BRIAN SILVIA
Deed Administrator
BRI FERRIER (NSW) PTY LTD
Level 13
1 Castlereagh Street
Sydney NSW 2000

Annexure 2

FORM 529
CORPORATIONS ACT 2001

Subregulation 5.6.12(2)

NOTICE OF MEETING OF CREDITORS TO VARY DEED OF COMPANY ARRANGEMENT

FOREST ENTERPRISES AUSTRALIA LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
(RECEIVERS AND MANAGERS APPOINTED)
ACN 009 553 548

NOTICE is given that a Meeting of the Creditors of the Company will be held at the Grand Chancellor Hotel, 29 Cameron Street, Launceston, Tasmania, 7250 on Tuesday, 27 September 2011 at 2:00pm.

The Meeting will also be broadcasting live on the internet from the following website:

- http://www.brr.com.au/event/86521

A G E N D A

1. To receive and discuss the Deed Administrators' Report to Creditors dated 16 September 2011.

2. To consider the following motion:

   That clause 3.1.5 of the Forest Enterprises Australia Limited Deed of Company Arrangement be varied to replace "2011" with "2012".

3. If the preceding motion does not pass, to consider the following motion:

   That the Company be wound up.

4. Any other business that may be lawfully brought forward.

We attach a proxy form that should be used by Creditors in the following circumstances:

a. Creditors who are unable to attend the meeting but wish to appoint someone to vote on their behalf.
b. Representatives of Creditors that are companies.
   In this case the Creditor company should:
   i. Execute the proxy under its common seal; or
   ii. Have the proxy signed by 2 directors or by a director and the secretary; or
   iii. Have the sole director sign the proxy if applicable; or
   iv. Have the proxy signed by someone authorised under seal, or by the directors, or sole director, as applicable to sign, and if required by the Chairman of the meeting, provide evidence that the person signing the proxy form is empowered to sign.

In accordance with Regulation 5.6.23(1) of the Corporations Regulations, Creditors will not be entitled to vote at this meeting unless they have previously lodged particulars of their claim against the Company with the Administrators.

Particulars or proofs lodged in the past are effective for this meeting. You only need to provide further particulars now if you wish to participate in this meeting and have not previously provided them.

Creditors' proxies must be delivered to this office by 2.00pm on Friday, 23 September 2011.

Please forward your proxies to this office in the post, via email to fea@briferrnernsw.com.au or by facsimile on (02) 8263 2399.

DATED this 16th day of September 2011.

BRIAN SILVIA
Deed Administrator
BRI FERRIER (NSW) PTY LTD
Level 13
1 Castlereagh Street
Sydney NSW 2000