

20 June 2012

Dear Grower

**WILLMOTT FORESTS LIMITED
ACN 063 263 650
(IN LIQUIDATION) (RECEIVERS AND MANAGERS APPOINTED) (WFL)**

This letter provides an update on developments with the administration of WFL since our last update of 5 April 2012.

1 Completion of Sales

As you will recall from our previous update, Justice Davies in the Supreme Court of Victoria found that the Liquidators were justified in entering into and performing the sale agreements with:

- Hancock Victorian Plantations (**HVP**) in respect of plantations located on its own land, but leased to WFL and used in connection with particular WFL registered and professional investor schemes; and
- Global Forest Partners LP (**GFP**) and its related entities for the balance of the plantations and the freehold land owned by WFL and used in connection with particular WFL registered and professional investor schemes.

The relevant registered and professional investor schemes are set out in Schedule 1 to this letter (**Relevant Schemes**). The land and trees used in the contractual and partnership schemes listed in Schedule 2 (**Contractual and Partnership Schemes**) and the Willmott Forests 1995–1999 Project were excluded from the sale agreements.

In reliance on the orders made by Justice Davies, the sales to HVP and GFP under the sale agreements were completed in May 2012. The net proceeds of sale have been apportioned in accordance with the orders made, with the net proceeds referable to the trees being paid to WFL on behalf of Growers in the Relevant Schemes.

The final amount available for distribution to Growers in the Relevant Schemes cannot be determined until the quantum of costs to be deducted is known, as discussed below.

2 Costs

Justice Davies has ordered that the legal costs of the Willmott Growers Group (**WGG**) and the Willmott Action Group Inc (**WAG**), in acting as interveners on behalf of Growers in the Supreme Court proceedings, are to be paid, pro rata, from the proceeds of sale of the land and tree interests. In effect, those costs will be deducted:

- in part from the proceeds of the Murray Valley and North Coast land which would otherwise be available to the receivers and managers of WFL (**Receivers and Managers**) on behalf of WFL's secured creditors;
- in part from the proceeds of the unencumbered Bombala land, which would otherwise be available to the Liquidators on behalf of WFL's unsecured creditors; and
- in part from the proceeds of the trees, which would otherwise be available for distribution to Growers in the Relevant Schemes (**Tree Proceeds**).

The amounts deducted in each case will be in proportion to the amount of proceeds received for the sale of the relevant assets.

The legal costs of the WGG and WAG are yet to be determined.

The Liquidators have also incurred various costs and expenses which are referable to the Willmott Schemes (**Scheme Related Costs**). The Liquidators are seeking to be reimbursed for their Scheme Related Costs from the Tree Proceeds. The quantum of Scheme Related Costs for which the Liquidators will be entitled to be reimbursed is yet to be determined by the Supreme Court. It is expected that a process for the determination will be set at the directions hearing on 22 June 2012.

The Liquidators are **not** seeking to have the costs they have incurred which are non-Scheme Related Costs reimbursed from the Tree Proceeds. Those non-Scheme Related Costs will be met from the proceeds otherwise available to the Liquidators on behalf of WFL's unsecured creditors.

As you may be aware, the Receivers and Managers when originally appointed, were in control of WFL in its capacity as responsible entity or manager of the Willmott Schemes. In this capacity, they incurred certain scheme related costs for which they are seeking reimbursement from the Tree Proceeds. The quantum of scheme related costs for which the Receivers and Managers will be entitled to be reimbursed is yet to be determined by the Supreme Court. It is expected that a process for the determination will be set at the directions hearing on 22 June 2012.

The Receivers and Managers are **not** seeking to have the costs they have incurred which are not scheme related costs reimbursed from the Tree Proceeds. The Receivers and Managers' non-scheme related costs will be met from the proceeds otherwise available to them on behalf of WFL's secured creditors.

3 WAG Appeals of HVP and GFP Sales and Costs Appeal

As indicated in our previous update, the WAG sought leave to appeal the decision of Justice Davies in relation to the approval of the HVP and GFP sales (**WAG Appeal**). On 8 June 2012, the Court of Appeal granted WAG leave to appeal that decision. Although no date has yet been set for the hearing of the WAG Appeal, a timetable has now been set for the preliminary steps in relation to the WAG Appeal. A date for the hearing of the WAG Appeal will not be set until the preliminary steps have been completed.

Under the current timetable, the preliminary steps are not scheduled to be completed until late October 2012. Given this, it is unlikely that the WAG Appeal will be heard until 2013.

The WAG has also now sought leave to appeal the decision of Justice Davies in relation to the payment of costs, including WAG's own costs (**WAG Costs Appeal**). The WAG Costs Appeal will be heard contemporaneously with the WAG Appeal.

4 Tree Proceeds

Justice Davies approved the method proposed by the Liquidators for the allocation of Tree Proceeds between Growers in the Relevant Schemes. That method was used in preparing the estimated distribution to Growers which the Liquidators sent to Growers on 13 February 2012. The actual amounts to be distributed to Growers may vary from the previously estimated distribution once the quantum of costs to be deducted is known. However, the method for allocation will remain the same (subject to the outcome of the WAG Appeal and WAG Costs Appeal).

The Liquidators are unable to distribute any of the Tree Proceeds to Growers in the Relevant Schemes until the final amount available for distribution to Growers can be determined. Pending this determination, we are holding the Tree Proceeds in an interest bearing account.

As the outcome of the WAG Appeal and WAG Costs Appeal may affect the determination of the amount available for distribution to Growers, ***we are not able to make a distribution to Growers of Tree Proceeds until those Appeals have been heard and decided by the Court of Appeal. This is unlikely to occur before 2013.***

Any distribution of Tree Proceeds to a Grower will also be subject to the resolution of any competing claims by that Grower's financier (see section 7).

5 Insurance Proceeds

We are holding the proceeds of insurance claims made in respect of tree damage in some Schemes prior to their appointment (**Insurance Proceeds**) and are finalising the one outstanding claim. The Insurance Proceeds are held in an interest bearing account pending distribution to those entitled to them. As proceeds from insurance claims on affected lots were pooled (rather than determined on a lot by lot or grower by grower basis) and as not all Growers were insured, the Liquidators are confirming the entitlement of relevant Growers to Insurance Proceeds.

Any distribution of Insurance Proceeds to a Grower will also be subject to the resolution of any competing claims by that Grower's financier (see section 7).

6 Thinning Proceeds

The Liquidators are also holding the proceeds of thinning undertaken on some plantations before, and during, their appointment (**Thinning Proceeds**). These Thinning Proceeds are held in an interest bearing account pending distribution to those entitled to them. As proceeds from the thinning of trees on all lots within a plantation were pooled, rather than determined on a lot by lot or grower by grower basis, the Liquidators are confirming the entitlement of relevant Growers to Thinning Proceeds.

Any distribution of Thinning Proceeds to a Grower will also be subject to the resolution of any competing claims by that Grower's financier (see section 7).

7 Competing Claims by Grower financiers

As you will be aware, a number of Growers funded their investment in the Schemes through loans from WFL, Willmott Finance Pty Ltd (Receivers and Managers appointed) (in Liquidation) (**WFIN**) MIS Funding No 1 Pty Ltd (**MISF**) or Commonwealth Bank of Australia (**CBA**). The loans by WFL are an asset of WFL which is under the control of the Receivers and Managers, not the Liquidators.

The Liquidators have been notified by each of the Receivers and Managers, WFIN, MISF and CBA (collectively, the **Financiers**) that each Financier is claiming that the terms of their respective loan agreements with particular Growers create a security interest or other entitlement in favour of the Financier over the relevant Growers' trees. On the basis of that interest or entitlement, the Financiers claim that any amount which would otherwise be distributable to those Growers, whether that amount consists of Tree Proceeds, Insurance Proceeds or Thinning Proceeds, should instead be paid to the relevant Financier in repayment of the Growers' loans.

The competing claims of affected Growers and their Financiers will need to be resolved between individual Growers and their Financier. The Liquidators will hold any amounts which would otherwise be distributed to Growers pending resolution of the competing claims.

Distributions to Growers who do not have a Grower loan will not be affected or delayed by the competing claims by other Growers' financiers.

8 Contractual and Partnership Schemes

You will recall from our last update that the Liquidators had appealed a preliminary decision by Justice Davies that the Liquidators were **not** able to sell the trees and land used in the Contractual and Partnership schemes free from any Grower rights.

The appeal was heard by the Court of Appeal on 23 May 2012. Once the Court of Appeal's decision is handed down we will provide an update to the Growers in the Contractual and Partnership Schemes.

9 Winding up the Registered and Professional Investor Schemes

As affected Growers are aware, the Liquidators have already commenced the winding up of the Willmott Forests Premium Timberland Fund No 1 and the 2005 BioForest Wholesale Project No 2.

The Grower rights in land and tree assets used in the other Relevant Schemes were extinguished to enable the completion of the HVP and GFP sale agreements. Given this, the Liquidators are intending to proceed to wind up or terminate the other Relevant Schemes in accordance with their constitutions/investment deeds and the *Corporations Act* (where applicable).

The commencement of the winding up or termination of the Relevant Schemes does not affect the entitlement of Growers (if any) to distributions of Tree Proceeds, Insurance Proceeds or Thinning Proceeds.

The Liquidators intend that the winding up or termination would be commenced by notification to the relevant Growers. However, the method used to wind up or terminate the Relevant Schemes may vary depending on the outcome of the Grower Proceeding referred to in section 10.

10 Grower Proceeding

Prior to Justice Davies' decision in relation to the HVP and GFP sale agreements, a group of Growers, including Mark Hoddinott, the chair of the WAG executive committee and Martin Grant, a principal executive member of the WAG (**Plaintiffs**), sought leave to commence proceedings in the Supreme Court of Victoria against WFL. In those proceedings, the Plaintiffs were seeking, amongst other things, the appointment of receivers to certain Willmott registered and professional investor schemes or alternatively an order that certain Willmott registered schemes be wound up.

On 19 June 2012, the Plaintiffs abandoned their application to have the receivers appointed to the schemes. We consented to the making of an order that WFL, as the responsible entity, wind up the registered schemes. We also agreed to terminate the professional investor schemes in accordance with their investment deeds.

A hearing was held on 20 June 2012 in respect of the winding up of the registered schemes and the payment of costs. Justice Davies indicated that she was prepared to make the agreed order for the winding up of the registered schemes and has reserved judgement in relation to the payment of costs. The winding up will commence immediately the order is made, without the need for the relevant Growers to be notified.

If you have any questions, please contact us at willmott@ppb.com.au.

Yours faithfully



Ian M Carson and Craig D Crosbie
Joint and Several Liquidators

SCHEDULE 1 - RELEVANT SCHEMES

Registered Schemes

- 1 Willmott Forests 1989 -1991 Project (ARSN 092 516 651)
- 2 Willmott Forests Project (ARSN 089 379 975)
- 3 BioForest Dual Income Project 2006 (ARSN 119 153 623)
- 4 BioForest Sustainable Timber and Biofuel Project 2007 (ARSN 124 135 535)
- 5 Willmott Forests Premium Forestry Blend Project (ARSN 131 549 589)
- 6 Willmott Forests Premium Forestry Blend Project - 2010 Project (ARSN 142 722 585)
- 7 Willmott Forests Premium Timberland Fund No. 1 (ARSN 136 768 520)

Professional Investor Schemes

- 8 Willmott Forests - Professional Investor-2001 Project - 2001 Information Memorandum
- 9 Willmott Forests - Professional Investor-2002 Project - 2002 Information Memorandum
- 10 Willmott Forests - Professional Investor-2003 Project - 2003 Information Memorandum (2003) and 2003 Information Memorandum (2004)
- 11 Willmott Forests - Professional Investor-2004 Project - 2004 Information Memorandum and 2004 Information Memorandum (2005)
- 12 2005 BioForest Wholesale Project No. 2 - 2005 Wholesale Forestry Memorandum (Bioforest)
- 13 Willmott Forests - Professional Investor-2006 Project - 2006 Information Memorandum

SCHEDULE 2 - CONTRACTUAL AND PARTNERSHIP SCHEMES

Contractual Schemes

- 1 1983 (No Project)
- 2 1984 (No Project)
- 3 1985 (No Project)
- 4 1986 (No Project)
- 5 1987 (No Project)
- 6 1989 (No Project)
- 7 1990 (No Project) Interest Only Offer
- 8 1991 (No Project)
- 9 1995 (No Project) (Custom)
- 10 Sharp/Reed Plantation Project -1998 Information Memorandum
- 11 2001 (No Project)

Partnership Schemes

- 12 McKenzie & Partners - Forestry Partnership No.1 (1993)
- 13 Grimsey & Associates Pty Ltd - Forestry Partnership No. 1 (1994)
- 14 Grimsey & Associates Pty Ltd - Forestry Partnership No. 2 (1994)
- 15 Grimsey & Associates Pty Ltd - Forestry Partnership No. 3 (1994)
- 16 McKenzie & Partners - Forestry Partnership No. 2 (1994)