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(Receivers & Managers Appointed)  
(In Liquidation) (GPL)

GUNNS PLANTATIONS LIMITED  
ABN 36 091 232 209  
AFSL NO. 238701  
(Receivers & Managers Appointed) (In Liquidation)

A WHOLLY OWNED SUBSIDIARY OF GUNNS LIMITED  
ABN 29 09 478 148  
(Receivers & Managers Appointed) (In Liquidation)(Gunns)

4 July 2014

## GPL Woodlot Schemes: Sale of scheme assets and court approval process

This explanatory notice (**Notice**) is for Growers invested in one or more of the following schemes:

Gunns Plantations Woodlot Project 2002 ARSN 099 584 675  
Gunns Plantations Woodlot Project 2003 ARSN 104 213 710  
Gunns Plantations Woodlot Project 2004 ARSN 108 690 080  
Gunns Plantations Woodlot Project 2005 ARSN 113 092 584  
Gunns Plantations Limited Woodlot Project 2006 ARSN 118 534 106  
Gunns Plantations Limited Woodlot Project 2008 ARSN 128 933 237  
Gunns Plantations Ltd Woodlot Project 2009 ARSN 135 490 292  
(together, the **2002 to 2009 GPL Woodlot Schemes**)

### Introduction

This Notice, as at 4 July 2014 (**4 July Explanatory Notice**), provides Growers with up to date information about recent material events that have occurred since our Notice to Growers dated 26 May 2014 (**26 May Explanatory Notice**).

**Growers should read this Notice in full as it includes important information about:**

- your investment following the sale of approximately **52,400 hectares** of 2002 to 2009 GPL Woodlot Schemes trees (**Scheme Assets**), located on land owned by the Gunns Group of companies (**Gunns Group**)
- the steps required before sale proceeds can be distributed to you, including Supreme Court of Victoria (**Court**) directions in relation to the sale.

The Scheme Assets were included as part of a joint sale (**Joint Sale**) with the Gunns Group's forestry assets located in Tasmania (collectively, the **Tasmanian Forestry Estate** or **TFE**) by the Gunns Group Receivers and Managers (**Gunns Receivers**).

The Joint Sale excludes, approximately:

- 51,000 hectares of 2002 to 2009 GPL Woodlot Schemes trees located on other land (ie land that is not owned by the Gunns Group) (**Third Party Land**). Separate notices to Growers on the status of Scheme Assets on Third Party Land will be provided in future updates
- 1,700 hectares of trees located on Gunns Group owned land that form part of the Gunns Plantations Woodlot Project 2000 ARSN 092 354 535 and Gunns Plantations Woodlot Project 2001 ARSN 094 182 279 (**collectively Excluded Woodlot Projects**).

The Liquidators have an interest in the outcome of the Joint Sale as a result of the Liquidators' professional fees, together with legal costs and third party expenses (including plantation maintenance, GPL staff costs, independent expert fees etc.) being payable from the Joint Sale proceeds. Refer to section 8 for further details.

**This Notice only deals with the processes and Court proceedings in relation to the Joint Sale. A separate process in relation to the distribution of the sale proceeds will likely occur later this year. Refer to section 11 for further details.**

## Next Steps

On 19 May 2014 the Liquidators lodged an interlocutory process with the Court. This commenced the Liquidators' application seeking directions from the Court that they were acting reasonably in entering into the Joint Sale process with the Gunns Receivers and in proceeding with the sale (**Court Proceeding**). Obtaining the Court directions is a condition of the Joint Sale.

A copy of this interlocutory process was provided to the following parties:

- Australian Securities and Investments Commission
- Committee of Inspection (a representative body for creditors of GPL)
- Grower Committee (a representative body for some Growers of GPL)
- Gunns Grower Group and their solicitors
- Gunns Receivers and their solicitors
- TFE purchaser and their solicitors.

At the Court directions hearings held on 23 May and 11 June 2014, the following timetable was set:

Date	Event
10 June 2014	<ul style="list-style-type: none"> <li>• Parties interested in participating in the hearing file a notice of appearance and affidavit (evidence)</li> <li>• Liquidators file evidence of Grower responses received</li> </ul>
11 June 2014	Directions hearing before the Court
4 July 2014	Liquidators file submissions and any further affidavits
10 July 2014	Interested parties file submissions
14 July 2014	All parties file any submissions in reply
16-17 July 2014	Hearing

The Court Proceeding will be conducted at the Supreme Court of Victoria, 210 William Street, Melbourne. The Court documents are available to Growers online at each of:

[www.ppbadvisory.com.au/creditor-information](http://www.ppbadvisory.com.au/creditor-information)  
[www.abl.com.au/gunns/gunns.htm](http://www.abl.com.au/gunns/gunns.htm)

A telephone hotline facility and an email facility were available to allow Growers to:

- comment on the Joint Sale
- ask questions and obtain further information on the Joint Sale.

As set out in the 26 May Explanatory Notice, Growers were provided, the opportunity to submit their comments, support and objections, which were summarised and provided to the Court on 6 June 2014.

We note that:

- the Gunns Growers Group, whose members hold an interest in the 2002 to 2009 GPL Woodlot Schemes
- an investor that has an interest in the 2002 GPL Woodlot Scheme, have filed a notice of appearance as parties interested in participating in the Court Proceedings.

We will keep you informed of future developments regarding the Court Proceeding.

### Disclaimer

*Growers are encouraged to read this update in its entirety before making any decisions concerning their investment. Growers should make their own independent evaluation of the relevance and adequacy of the information contained herein.*

*PPB Advisory has not considered the investment objectives, financial situation or particular needs of individual Growers or any other person. Accordingly, this update should not be relied upon as the sole basis for any decision in relation to your investment. Growers should obtain and rely on professional advice from their own tax, legal, accounting and other professional advisers in respect of the Growers' investment objectives, financial position or particular needs.*

## How to navigate this document

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<b>8 to 15 Other information</b>	<ul style="list-style-type: none"> <li>detail on a range of other information Growers should consider, such as – scheme costs, other claims, how proceeds will be allocated later on, grower loans, tax issues and how to get in contact and obtain further information.</li> </ul>	14 - 16

## 1. Summary of Joint Sale

### 1.1 Update since 26 May Explanatory Notice

Growers may recall that of the circa 105,000 hectares of scheme assets, approximately 1,700 hectares (circa 2%) relate to the 2000 and 2001 GPL Woodlot Schemes and the balance (circa 103,000 hectares, circa 98%) relate to the 2002 to 2009 GPL Woodlot Schemes.

In March 2013, Primary Securities Limited (**Primary**) expressed an interest in becoming RE of the 2000 and 2001 GPL Woodlot Schemes.

On 18 June 2014 the Australian Securities and Investments Commission (**ASIC**) confirmed that there had been a change in the responsible entity (**RE**) to Primary (**Primary RE**) for the 2000 and 2001 GPL Woodlot Schemes.

As a consequence:

- the scheme assets of the 2000 and 2001 GPL Woodlot Schemes, **no-longer** form part of the Joint Sale of the TFE (collectively the **Excluded Woodlot Projects**)
- land owned by the Gunns Group of companies (**Gunns Group Land**), circa 1,700 hectares, on which the scheme assets of the 2000 and 2001 GPL Woodlot Schemes are located, will also **no-longer** form part of the Joint Sale of the TFE (collectively the **Excluded Land**)
- the purchase price payable for the Joint Sale of the TFE has been adjusted to accommodate the removal of the Excluded Woodlot Projects and Excluded Land (refer section 6)
- Growers (scheme investors) of the 2000 and 2001 GPL Woodlot Schemes **will not** participate in the distribution of the TFE sale proceeds

The Liquidator expects that the Primary RE will be in contact with Growers of the 2000 and 2001 GPL Woodlot Schemes (scheme investors), in relation to its plans for these schemes.

This Notice updates the 26 May Explanatory Notice for recent events.

### 1.2 Joint Sale Summary

Adjusting for the removal of Excluded Woodlot Projects and Excluded Land from the sale agreement between the Gunns Receivers and entities managed by New Forests (an Australian based fund manager), the agreed sale price for the TFE assets is \$324.7 million subject to certain completion adjustments.

The TFE assets sold included assets of the Gunns Group such as 174,000 hectares of land, approximately 42,000 hectares of trees (partially owned by other parties), 3 woodchip mills, port facilities, nursery / tree breeding facilities, fibre technology processing, forestry operations and other related assets. The sale also included assets of the 2002 to 2009 GPL Woodlot Schemes, being approximately 52,400 hectares of trees on land owned by the Gunns Group.

Assets that **did not** form part of this sale, included:

- the pulp mill opportunity, which may be sold separately at a later stage
- some 51,000 hectares of 2002 to 2009 GPL Woodlot Schemes trees and interests, located on property not owned by the Gunns Group (**Third Party Land**)
- 1,700 hectares of trees that form part of the scheme assets of the Excluded Woodlot Projects
- the Excluded Land.

Separate updates to Growers will cover the status of, and our plans in relation to, the 2002 to 2009 GPL Woodlot Schemes trees and interests located on Third Party Land. If the pulp mill is subsequently sold, Growers will be entitled to a proportion of the sale proceeds in relation to that sale.

Of the total Joint Sale proceeds for the TFE, **12.5% or \$40.6 million** is to be allocated to the 2002 to 2009 GPL Woodlot Schemes (prior to applicable costs). Further details are provided in section 6.

After taking into account the costs associated with maintaining the Scheme Assets, sale costs, costs associated with exploring the alternate responsible entity process (refer section 2.2), the Liquidators' professional and legal costs, we estimate the net funds available from the sale will be in the range of **\$27m to \$29m**. Section 8 provides Growers with further information on these costs.

The 2002 to 2009 GPL Woodlot Schemes provided that proceeds of sale or harvest of any trees would be **pooled** and then distributed to all Growers in the relevant scheme. Accordingly, following the payment of the liabilities of the relevant Schemes, the balance of the net funds allocated to each of the 2002 to 2009 GPL Woodlot Schemes will be shared between all Growers in the each scheme, regardless of whether a Growers' Woodlot was located on Gunns Group Land or Third Party Land.

## 1.2 Best interests of Growers

The Liquidators consider that the Joint Sale is in the best interests of Growers because:

- GPL in its own right is hopelessly insolvent, is not in possession of material funds and therefore cannot continue as RE on an ongoing basis
- after 20 months, and an extensive expressions of interest campaign there is still no alternate RE currently willing to take over the 2002 to 2009 GPL Woodlot Schemes
- GPL has been served with multiple breach notices in respect of the Gunns head leases (**Gunns Head Leases**) and Gunns head forestry right deeds (**Gunns Head Forestry Right Deeds**) which are both at risk of termination
- Growers may lose all interest in the trees if the Gunns Head Leases and Gunns Head Forestry Right Deeds are terminated
- even if any breaches of the Gunns Head Leases and Gunns Head Forestry Right Deeds were rectified, there is a risk that the Gunns Head Leases and Gunns Head Forestry Right Deeds are not capable of assignment unless the 2002 to 2009 GPL Woodlot Schemes continued
- the Liquidators ran their own standalone sale process (ie independent to the Joint Sale) but did not receive any offers to purchase the Scheme Assets
- the Gunns Receivers ran a competitive Joint Sale process
- the inclusion of the Scheme Assets in the Joint Sale process is likely to have increased the amount a purchaser would be willing to pay for the Scheme Assets
- a value allocation as part of the Joint Sale process was agreed following extensive negotiations between the Liquidators and the Gunns Receivers, having regard to forestry expert, independent legal and valuation advice.

## 2. Background

### 2.1 Appointment of Administrators

On 25 September 2012, Ian Carson, Daniel Bryant and Craig Crosbie were appointed joint and several Administrators (**Administrators**) of the Gunns Group (including GPL) pursuant to Section 436A of the Corporations Act 2001 (**the Act**).

Also on 25 September 2012, Mark Korda and Bryan Webster of KordaMentha were appointed as the Gunns Receivers.

At the concurrent second meeting of creditors of the Gunns Group held on 5 March 2013, it was resolved that, pursuant to Section 439C(c) of the Act, the Gunns Group be wound up and the Administrators were appointed as joint and several Liquidators.

### 2.2 Expressions of interest (EOI) campaign for an alternate RE

Growers will be aware that GPL in its own right is hopelessly insolvent, is not in possession of material funds and therefore cannot continue as RE on an ongoing basis.

Recognising this, on 15 October 2012, the Liquidators commenced an EOI campaign seeking interest for the role of RE to replace GPL in respect of, relevantly, the GPL Woodlot Schemes.

Macquarie Bank Limited (**Macquarie**) put forward a restructure proposal in relation to the 2002-2006 and 2008 GPL Woodlot Schemes which involved, among other things, WA Blue Gum Pty Ltd (**WA Blue Gum**) replacing GPL as RE and changing those schemes from non-contributing to contributing schemes (**Alternate RE Proposal**).

While Grower meetings were held to vote on the Alternate RE Proposal, following legal proceedings as to the validity of the meeting material, the resolutions passed at those meetings were found by the Court to be of no effect. Additionally, separate legal proceedings found that the proposed treatment of leases with third party landlords under the Alternate RE Proposal was not possible.

Following the outcome of these proceedings, Macquarie and WA Blue Gum elected not to proceed with their restructure proposal or any other proposal to replace the RE. Accordingly, there is currently no party willing to become RE of the 2002 to 2009 GPL Woodlot Schemes.

In March 2013, Primary expressed an interest in becoming RE of the 2000 and 2001 GPL Woodlot Schemes.

On 18 June 2014 the ASIC confirmed that there had been a change in the RE to Primary RE for the 2000 and 2001 GPL Woodlot Schemes.

As a consequence:

- the scheme assets of the 2000 and 2001 GPL Woodlot Schemes, **no-longer** form part of the Joint Sale of the TFE
- Growers (scheme investors) of the 2000 and 2001 GPL Woodlot Schemes **will not** participate in the distribution of the TFE sale proceeds

The Liquidators expect that the Primary RE will be in contact with Growers of the 2000 and 2001 GPL Woodlot Schemes (scheme investors), in relation to their plans for these schemes.

Growers will be aware that the alternate RE process was explored in the period October 2012 through to August 2013. During this time, significant costs were incurred in relation to the ongoing maintenance of Scheme Assets, administration costs, staff wages and the legal, liquidation and other costs of the RE (circa \$4.4m). These costs have been reviewed by the Court and allowed in full.

### 3 Standstill agreements and Power of Sale

#### 3.1 Risk of termination of the Gunns leases by the Gunns Receivers

During November 2012, the Gunns Receivers issued notices of default in respect of the leases and forestry rights deeds in respect of the Gunns land on which the GPL Woodlot Schemes were conducted (**Gunns Leases**). They alleged breaches of the Gunns Leases by GPL in its capacity as RE, such as the failure to pay rent or comply with maintenance obligations.

During the period of the Gunns administration, the Gunns Receivers were prevented from taking possession of the land the subject of the Gunns Leases without the Liquidators' consent or leave of the Court, pursuant to section 440B of the Act. However, once GPL was placed into liquidation on 5 March 2013, the Gunns Receivers had the ability to take possession of the land, given the statutory moratorium created by the Gunns administration had ended.

Around this time, we engaged in discussions with the Gunns Receivers in respect of the Gunns Lease default notices.

### 3.2 Standstill agreements with the Gunns Receivers

The Gunns Receivers agreed not to take further action in respect of Gunns Lease defaults, provided the Liquidators commenced a sale of the Scheme Assets in conjunction with the Gunns Receivers' sale of the TFE assets owned by the Gunns Group in Tasmania.

Following legal advice, the Liquidators concluded that the risk of termination of the Gunns Leases was material. Additionally, any remedial legal action would have involved significant costs and carried an unacceptable risk that it may be unsuccessful. If GPL or Growers did not succeed in any remedial legal action, Growers may have lost all rights in respect of the trees and received no compensation for that loss.

Accordingly, on 5 April 2013, GPL entered into a standstill agreement (**April Standstill Agreement**) with the Gunns Receivers in relation to the Gunns Leases.

The April Standstill Agreement provided, amongst other things, that:

- the Gunns Receivers would not take steps to terminate the Gunns Leases
- Gunns Forests Products Pty Ltd (Receivers and Managers Appointed) (In Liquidation) would continue to maintain the TFE (including the plantations of all the GPL Woodlot Schemes located on Gunns land)
- Gunns Finance Limited (Receivers and Managers Appointed) (In Liquidation) (**Gunns Finance**) would provide a proposal to those GPL Woodlot Schemes Growers holding loans with Gunns Finance that the sale of the Schemes Assets would not of itself constitute an event of default under the Growers' loans.

The April Standstill Agreement was conditional upon, amongst other things, the orderly realisation of the TFE, and the Liquidators seeking a power of sale from the Court in respect of the GPL Woodlot Schemes.

The replacement of GPL as RE for the 2000 and 2001 GPL Woodlot schemes constituted a termination event under the April Standstill Agreement therefore the Gunns Receivers terminated the April Standstill Agreement on 19 June 2014.

Concurrently a new standstill agreement (**June Standstill Agreement**) was entered into between the Gunns Receivers and GPL, in relation to the 2002 to 2009 GPL Woodlot Schemes, on the same terms as the April Standstill Agreement, to be treated at all material times as having been in place in place since 5 April 2013.

The Liquidators understand the Primary RE will be in contact with Growers of the 2000 and 2001 GPL Woodlot Schemes (scheme investors), in relation to its plans for these schemes.

### 3.3 Power of sale - Court application

Shortly after entering into the April Standstill Agreement, the Liquidators made an application to the Court for directions and orders in relation to the amendment of the GPL Woodlot Schemes constitutions to provide the RE with a power to sell the assets of each of the GPL Woodlot Schemes (including the Scheme Assets) (**Power of Sale**).

On 31 May 2013, the Court provided an order that allowed the Liquidators to amend the constitutions of the:

- GPL Woodlot 2000, 2001 and 2009 Schemes, enabling a sale of each scheme's assets
- GPL Woodlot Schemes 2002 to 2006 and 2008 enabling a sale of each scheme's assets, if WA Blue Gum did not become the RE of these schemes by 30 June 2013 (this date was subsequently amended to 12 August 2013).

WA Blue Gum did not become the RE by 12 August 2013 so GPL remained the RE of the 2002 to 2009 GPL Woodlot Schemes.

Growers were provided updates in relation to the Power of Sale – court application on the following dates. These updates are available at [www.ppbadvisory.com.au/creditor-information](http://www.ppbadvisory.com.au/creditor-information).

#### Grower Updates

5 April 2013	8 May 2013	16 May 2013
<b>6 April 2013</b>	<b>9 May 2013</b>	<b>21 May 2013</b>
14 April 2013	15 May 2013	14 June 2013
<b>19 April 2013</b>		

#### 4 Sale process negotiations, structure and value allocation

In August 2013, the Liquidators and Gunns Receivers commenced negotiations in relation to the Joint Sale process for the TFE, which included:

- 173,916<sup>1</sup> hectares of Gunns freehold land located in Tasmania on which:
  - approximately 52,474 hectares of the planted trees are Scheme Assets
  - approximately 28,571 hectares of planted trees are Gunns Group assets
  - approximately 13,582 hectares of trees are owned by a joint venture between an entity controlled by the Gunns Group and a third party
- port operations for the export of woodchips at Burnie and Tamar
- 3 woodchip mills
- nursery / tree breeding facilities and fibre technology processing
- forestry operations and other related assets
- an opportunity to construct a pulp mill including land and relevant plans and permits.

<sup>1</sup> Adjusted for the removal of the Excluded Woodlot Projects and Excluded Land

We considered the sale of the Scheme Assets may take two forms:

- a sale of the Scheme Assets to the purchaser of the Gunns land. As part of that transaction, GPL would surrender the Gunns Head Leases and Gunns Head Forestry Right Deeds or
- a sale of the Scheme Assets and an assignment of the Gunns Head Leases and Gunns Head Forestry Right Deeds to a third party.

##### 4.1 Ability to assign the Gunns Head Leases

The Liquidators and the Gunns Receivers had differing views on the ability to assign the Gunns Head Leases.

During our negotiations with the Gunns Receivers, they asserted that the Gunns Head Forestry Right Deeds were not assignable unless the Gunns Woodlot Schemes continued (pursuant to the terms of the Gunns Head Forestry Right Deeds).

In short, the Gunns Receivers asserted that a sale of the Scheme Assets and an assignment of the Gunns Head Forestry Right Deeds was not an available option given:

- there was no party likely to take over as RE of the Gunns Woodlot Schemes
- the Gunns Woodlot Schemes could not continue without the appointment of a new RE
- the Gunns Head Forestry Right Deeds could not be assigned unless the Gunns Woodlot Schemes continued



In order to protect the interests of Growers, the Liquidators rejected the Gunns Receivers' assertions and argued that:

- the Gunns Head Forestry Right Deeds were capable of assignment without the need for the Gunns Woodlot Schemes to continue
- the Gunns Head Forestry Right Deeds were valuable given they were generally on nominal rent.

At the same time, we sought legal advice in relation to the Gunns Receivers' assertions.

If the Gunns Receivers' assertions were correct, it would result in the Growers losing all interest in the Scheme Assets given, on termination of Gunns Head Forestry Right Deeds, ownership of the trees reverted to Gunns.

In these circumstances, Growers in the Gunns Woodlot Schemes would therefore risk receiving a nil return.

#### **4.2 Benefits of a Joint Sale with the Gunns Receivers**

The Liquidators considered the key benefits of including the Scheme Assets with the assets of the Gunns Group in the Joint Sale process to be:

- elimination of the termination risk of the Gunns Head Forestry Right Deeds and subsequent nil return to Growers for the Scheme Assets
- an increase in the attractiveness of the Scheme Assets. For example, a purchaser interested in developing the pulp mill opportunity would need access to a greater supply of trees than it could obtain from the trees owned by the Gunns Group in its personal capacity. They may therefore be prepared to pay more for the Scheme Assets
- access to a broader market and a deeper pool of buyers.

#### **4.3 Negotiation of Scheme Assets sale price allocation as part of Joint Sale**

The Joint Sale of the TFE required an allocation of the total purchase price between the scheme and non-scheme various assets.

In previous sale processes involving the assets of insolvent managed investment schemes and other assets, the allocation has generally been made with reference to the purchaser's offer and an independent valuer.

The Liquidators were aware that, in previous sale processes involving other managed investment schemes, concerns had been raised that an allocation of price by purchasers between land assets and scheme plantations was very subjective. In addition, there was a risk that undue pressure could be placed on the purchaser to allocate value in a way that favoured the land assets at the expense of the scheme plantations, or the scheme plantations at the expense of the land assets.

As a result, the interests of the owners of the land assets and the schemes were not aligned and there was significant uncertainty around the value that might be achieved until very late in the sale process. The Liquidators and Gunns Receivers therefore negotiated an up-front allocation, which would ensure the interests of the parties during the Joint Sale process were aligned.

In negotiating the allocation, we considered that there were likely to be three types of purchasers that may be interested in the Scheme Assets:

- those simply interested in acquiring Scheme Assets and an assignment of the Gunns Head Forestry Right Deeds
- those interested in acquiring Scheme Assets and the other assets held by the Gunns Group (eg the Gunns Freehold Land, port assets, saw mills, Gunns' trees, nursery and so on), such as wood chipping or other forestry operators
- those interested in developing the pulp mill opportunity (together with the other assets).

This meant that the price that a purchaser was willing to pay for the Scheme Assets varied depending on what that purchaser was interested in acquiring.

On 25 October 2013, following extensive negotiations with the Gunns Receivers, and having regard to independent forestry advice of URS (an independent forestry firm), legal advice and advice from a PPB Advisory valuation expert, an allocation schedule was agreed between the Liquidators and the Gunns Receivers (**Value Allocation Schedule**), which was included in a Sale Process Agreement (**October SPA**). The following is a summary of the extensive negotiations and analysis that was completed to arrive at the Value Allocation Schedule.

#### 4.4 Value Allocation

A financial model (**Value Allocation Model**), prepared by the Gunns Receivers in conjunction with Gunns staff, was used as the foundation for commencing the negotiations around the Value Allocation Schedule.

The Liquidators undertook a comprehensive review of the Value Allocation Model in order to:

- ensure there were no errors in the model
- consider the underlying logic
- consider the reasonableness of key assumptions.

We also assessed the likely price if the Scheme Assets were sold on a standalone basis, in order to consider the reasonableness of the Value Allocation Model outputs.

To assist with the allocation assessment process, the Liquidators instructed:

- a PPB Advisory valuation expert to provide an opinion on the Value Allocation Model
- URS to provide its opinion on the various key assumptions in the Value Allocation Model such as woodchip demand, pricing, foreign exchange impacts and any other potential issues identified.

The Liquidators received a report from URS dated 6 September 2013. We also arranged for URS (along with the Liquidators' team) to meet with the Gunns Receivers and the Gunns Group Chief Financial Officer on 10 and 11 September 2013 to discuss the logic and assumptions underpinning in the Value Allocation Model.

Following that meeting and taking into account:

- the Liquidators' review of the Value Allocation Model and that of the PPB Advisory valuation expert
- URS' report and comments on the Value Allocation Model

the Liquidators amended a number of variables in the Value Allocation Model to reflect their view of a fair allocation (**Liquidators' Value Allocation Model**). The Liquidators' Value Allocation Model assumed, amongst other things, that the Gunns Head Forestry Right Deeds could be assigned to a third party without the GPL Woodlot Schemes continuing.

Following further meetings and discussions, on 18 September 2013, the Gunns Receivers provided an amended summary output of the Value Allocation Model by way of an proposal to us (**Receivers' Proposal**). The Receivers' Proposal was based on the assumption that the Gunns Head Forestry Right Deeds could not be assigned.

On 20 September 2013, the Liquidators wrote to the Gunns Receivers setting out different assumptions and providing them with a summary output of the allocation based on these adjustments (**Liquidators' Proposal**). The Liquidators' Proposal was again based on the assumption that the Gunns Head Forestry Right Deeds could be assigned to a third party without the GPL Woodlot Schemes continuing. This was the major variable between the Receivers' Proposal and the Liquidators' Proposal.

Further extensive negotiations between the parties took place between late September and early October 2013, resulting in agreement on the allocation mechanism for the Joint Sale proceeds on 11 October 2013. The agreement was reached having regard to various factors including the advice of URS, the PPB Advisory valuation expert and legal advice in respect of the assignment of the Gunns Head Forestry Right Deeds. A key inclusion was the ability of the Liquidators to also run a standalone sale process, discussed below.

As part of the Court Proceeding, the Liquidators will be seeking direction of the Court that they were acting reasonably in entering into this agreement.

#### 4.5 Sale Process Agreement

On 25 October 2013, the Liquidators entered into the October SPA with the Gunns Receivers whereby the two following independent sale processes would be run concurrently.

- **Liquidators' standalone sale process** – conducted independently by the Liquidators for only the Scheme Assets, which aimed to attract purchasers simply interested in acquiring GPL Woodlot Schemes trees on leasehold land (refer section 5).
- **Joint Sale process with the Gunns Receivers** – conducted by the Gunns Receivers for the TFE (including the Scheme Assets) targeted at those interested in, for example, wood chipping operations and those interested in developing the pulp mill opportunity (refer section 6).

It was important to the Liquidators that they had an opportunity to independently market the Scheme Assets on a standalone basis (namely subject to the Gunns Head Forestry Right Deeds and Gunns Head Leases) in order to:

- explore and test the market for the Scheme Assets
- test the reasonableness of the Value Allocation Schedule
- lock in a floor price for the Scheme Assets.

It was also important that the Gunns Receivers supported the standalone sale process. The Liquidators considered that interested parties would only be interested in purchasing the Scheme Assets if the Gunns Receivers were acting in a cooperative manner in relation to that sale process. The Receivers agreed to do so as part of the October SPA.

Other key terms of the October SPA provided that:

- GPL was not bound to accept offers received under either sales process and GPL would not accept an offer unless it considered it was in the best interests of Growers to do so
- the April Standstill Agreement continued while a sale was being conducted and completed which prevented termination of the Gunns Leases
- if the Liquidators received a final bona fide offer for the Scheme Assets, the Gunns Receivers could elect to increase the Scheme Assets value allocation, so that the Scheme Assets could continue to be included as part of the sale of the TFE, subject to Court directions
- the Gunns Receivers would not make any claim against the 2002 to 2009 GPL Woodlot Schemes for:
  - unpaid rent relating to the Gunns Head Forestry Right Deeds or Gunns Head Leases
  - any unpaid charges relating to the maintenance or management of the Scheme Assets during any period prior to the Gunns Receivers' appointment.

The replacement of GPL as RE for the 2000 and 2001 GPL Woodlot schemes constituted a termination event under the October SPA and therefore the Gunns Receivers terminated the October SPA on 19 June 2014.

Concurrently a new Sale Process Agreement (**June SPA**) was entered into between the Gunns Receivers and GPL, in relation to the 2002 to 2009 GPL Woodlot Schemes, on the same terms as the October SPA, to be treated at all material times as having been in place in place since 25 October 2013.

The Liquidators expect that the Primary RE will be in contact with Growers of the 2000 and 2001 GPL Woodlot Schemes (scheme investors), in relation to its plans for these schemes.

## 5 Liquidators' standalone sale process

From October 2013, the Liquidators marketed the Scheme Assets on a standalone basis to parties interested in purchasing only the tree and lease interests of the GPL Woodlot Schemes.

To progress the standalone sales process the Liquidators:

- undertook a comprehensive national and international marketing program that included advertising in national newspapers and national and international forestry publications
- developed an interested party information pack that was sent to in excess of 70 parties, including professional advisors, accounting firms, lawyers, financial institutions and commercial and specialist forestry entities.
- produced an information memorandum for all the GPL Woodlot Schemes assets (including the Scheme Assets)
- established and managed a data room for interested parties that included detailed information in relation to the GPL Woodlot Schemes assets
- invited various parties to participate in the following sale process phases:
  - Indicative non-binding offers phase:
    - Eight interested parties proceeded to stage one due diligence and completed their due diligence process. Each interested party was provided with an information memorandum for the GPL Woodlot Schemes assets and access to supplementary data in an online secure data room.
    - Four indicative non-binding offers were received from interested parties by the due date of 11 November 2013, although one party withdrew from the process shortly thereafter.
  - Final offer phase:
    - The three remaining interested parties conducted more detailed due diligence and were invited to meet with and interview management and conduct site visits of the GPL Woodlot Schemes assets.
    - Final offers for the GPL Woodlot Schemes assets were due on 9 December 2013. All remaining interested parties withdrew from the standalone sale process in respect of the GPL Woodlot Schemes assets and accordingly, no final and binding offers were received by the Liquidators.

Given this outcome, the Liquidators elected to continue participating in the Joint Sale process with the Gunns Receivers as outlined below.

## 6 Joint Sale process with Gunns Receivers

On 1 November 2013, the Gunns Receivers informed the Liquidators that they had formally commenced the Joint Sale process that day in respect of the TFE, including the Scheme Assets.

The Gunns Receivers engaged two financial advisors to assist with their process, Moelis & Company and CITIC Resources (for Chinese domiciled interested parties) (**Financial Advisors**) to the Joint Sale process. The Financial Advisors undertook a marketing campaign for the Joint Sale assets and contacted 108 parties to advise of the sale of the TFE assets, issued 27 information memorandums, established and hosted a data room including relevant information for interested parties, liaised with interested parties to encourage their involvement in the sale process and called for expressions of interest.

The Gunns Receivers required interested parties to provide indicative non-binding offers by 16 December 2013. The Gunns Receivers by that date received approximately seventeen conforming indicative non-binding offers as well as two non-conforming expressions of interest. Seven of the parties who provided a conforming indicative non-binding offer were invited to progress to the second stage due diligence of the Gunns Receivers' Joint Sale process.

As of 31 March 2014, the Gunns Receivers had received six final binding offers. The Gunns Receivers informed the Liquidators that two of the bids, one from New Forests and the other from a confidential party, were substantially higher than the other four bids and that they would progress negotiations with those two parties. The Gunns Receivers subsequently selected New Forests as the preferred bidder.

On 29 April 2014, the Gunns Receivers announced they had entered into an agreement with The Trust Company (PTAL) Limited in its capacity as trustee of the Tasmanian Forest Investment Sub-Trust, The Trust Company (Australia) Limited in its capacity as trustee of the Tasmanian Forest Operating Sub-Trust and Tasmanian Forest Management Pty Limited (together, the Trust Companies – managed by New Forests) for the purchase of the TFE (but excluding the pulp mill assets).

An agreement was reached for the sale of the TFE (including the Scheme Assets) as a going concern, the purchase price and conditions of which were set out in a Business Sale Agreement (**BSA**). In accordance with terms of the BSA and adjusting for the removal of the Excluded Woodlot Projects and the Excluded Land, the purchase price for the Joint Sale is **\$324.7m**.

Completion is subject to a number of conditions including:

- Foreign Investment Review Board approval (now satisfied)
- the Liquidators obtain direction of the Court or Federal Court of Australia that they are justified and otherwise acting properly in procuring GPL to enter into an agreement with the Gunns Receivers and to exercise the Power of Sale
- the Liquidators procuring GPL to exercise the Power of Sale in accordance with the Court direction.

Based on the Value Allocation Schedule set out in the October SPA and June SPA, the Scheme Assets share of the purchase price is **\$40.6m** (or 12.5% of \$324.7m) less \$1.0m of proportional Joint Sale costs, resulting in **net proceeds of \$39.6m**.

After taking into account the costs associated with maintaining the Scheme Assets, sale costs, costs associated with exploring the alternate RE process (refer section 2.2), the legal, administration and liquidation costs, we estimate that the net funds available from the sale will be in the range of **\$27m to \$29m**. Section 8 of this update, provides growers with further information in relation to costs.

The Gunns Woodlot Schemes provided that proceeds of sale or harvest of any trees would be **pooled** and then distributed to all Growers in the relevant scheme. Accordingly, following the payment of the liabilities of the relevant schemes, the balance of the net funds allocated to each GPL Woodlot Scheme will be shared between all Growers in the scheme, regardless of whether a Growers Woodlot was located on Gunns Group Land or Third Party Land.

## 7 2002 to 2009 GPL Woodlot Schemes assets not included in the Joint Sale

Further proceeds may be available to Growers relating to other interests of the Gunns Woodlot Schemes not included in the Joint Sale process including:

- trust monies held by the Liquidators, including thinning proceeds and insurance claims
- 2002 to 2009 GPL Woodlot Schemes trees of circa 51,000 hectares located on:
  - Forestry Tasmania land of approximately 14,000 hectares
  - third party (private) landowners land of approximately 27,000 hectares
  - Australian Forestry Plantations Trust (receivers and managers appointed) and Australian Forestry Plantations Trust No. 2 (receivers and managers appointed) land of approximately 10,000 hectares
- the pulp mill (the October SPA and June SPA provides Growers will share in the proceeds of any future sale of this asset).

The Liquidators will keep Growers informed of developments in respect of the above.

## 8 2002 to 2009 GPL Woodlot Schemes related costs

There are a number of costs (**Scheme Costs**) which will be deducted from the proceeds for the Scheme Assets. These indicative costs are summarised in the below table.

<b>Cost category</b>	<b>Pre-sale costs*</b>	<b>Sale process</b>	<b>Estimated future costs</b>	<b>Total</b>
<b>Period</b>	<b>25/09/12 - 31/07/13</b>	<b>1/8/13 - 30/4/14</b>		
Professional fees and disbursements	\$ 2,062,798	\$ 2,382,501	\$ 1,500,000	\$ 5,945,299
Legal fees	\$ 1,047,893	\$ 634,873	\$ 750,000	\$ 2,432,766
Maintenance / third party costs	\$ 1,310,581	\$ 1,706,580	\$ 500,000	\$ 3,517,160
<b>Total estimated costs</b>	<b>\$ 4,421,272</b>	<b>\$ 4,723,953</b>	<b>\$ 2,750,000</b>	<b>\$ 11,895,225</b>

\* **Pre-sale costs** includes costs associated with the Alternate RE Process such as ongoing maintenance of Scheme Assets, administration costs, staff wages and the legal, liquidation and other costs of the RE

The estimated net return is calculated on the basis of estimated costs, including costs which are yet to be approved by the Court (including future costs). Those costs may vary. If the actual costs are more than that estimated, the pooled net return to the 2002 to 2009 GPL Woodlot Schemes Growers will reduce. If the actual costs are less than the estimated costs, the pooled net return to Growers will increase. The estimated net return also assumes that no liabilities, other than scheme costs, are payable from the Joint Sale proceeds (refer section 9). If there are other scheme liabilities payable, the net return to Growers may reduce.

Also excluded from the above costs, are GPL costs associated with the 2000 and 2001 GPL Woodlot Schemes. Such costs may form a claim against the scheme assets of the 2000 and 2001 GPL Woodlot Schemes.

## 9 Potential other claims

There may be some liabilities which are payable from the Joint Sale proceeds (and any other realisations of 2002 to 2009 GPL Woodlot Schemes assets). The RE may be required to satisfy those liabilities from Joint Sale proceeds prior to paying any amounts to Growers.

Some third party landowners may have claims against the RE for rent or other amounts owing under leases entered into in relation to the 2002 to 2009 GPL Woodlot Schemes. If these claims are valid, the RE may be entitled to be indemnified from the scheme property of the relevant 2002 to 2009 GPL Woodlot Schemes for any such claims. If the RE is entitled to be indemnified, the valid claims of landowners may be payable from 2002 to 2009 GPL Woodlot Schemes assets in priority to distributions to Growers. The Liquidators have commenced, and intend to continue, negotiating with landowners in order to minimise such claims.

If any such potential claims are valid and payable from 2002 to 2009 GPL Woodlot Schemes assets, the net return to Growers may be reduced.

A feature of the agreements reached with the Gunns Receivers, is that they would not pursue recovery action against the Scheme Assets for any unpaid rent or for any pre-appointment maintenance charges.

## 10 Liquidators' interest in the Proceeding

Scheme Costs allocated to each of the particular 2002 to 2009 GPL Woodlot Schemes will only be paid from the assets of that scheme. Unless the relevant Scheme Costs for each of the 2002 to 2009 GPL Woodlot Schemes are paid in full, Growers in each of those schemes will not receive a return.

The Scheme Costs will only be paid in full if the amount of the Joint Sale proceeds allocated to each of the relevant 2002 to 2009 GPL Woodlot Schemes is greater than the Scheme Costs for each of the GPL Woodlot Schemes. If the amount of Joint Sale proceeds allocated to each of the 2002 to 2009 GPL Woodlot Schemes is less than the relevant Scheme Costs, the Liquidators may not recover all of the amount owing to them and Growers in those schemes will not receive a return.

This gives rise to a potential conflict of interest for the Liquidators, as they may be seen as having an interest in allocating the amount of the Joint Sale proceeds payable in respect of the Scheme Assets in such a way as to ensure that the Scheme Costs owing to them are paid in full.

Having regard to this potential conflict, the Liquidators will:

- obtain input from an independent forestry firm in relation to the allocation
- seek Court directions in relation to the allocation of the proceeds
- ensure Growers have the opportunity to have their views heard by the Court.

## 11 Allocation and distribution of net sale proceeds

Should the Court direct and order that the Liquidators were acting reasonably in entering into the Joint Sale process with the Gunns Receivers and in proceeding with the sale, the Liquidators will hold the net proceeds on trust for the Growers, pending a further process for the allocation of sale proceeds across the 2002 to 2009 GPL Woodlot Schemes (**Allocation and Distribution Process**).

To assist with the Allocation and Distribution Process, the Liquidators intend to engage URS, as an independent forestry firm, to assist in assessing a reasonable apportionment of the net sale proceeds across the 2002 to 2009 GPL Woodlot Schemes.

The Liquidators will also seek Court direction that they are justified and acting properly and reasonably in proceeding with the proposed Allocation and Distribution Process.

We expect this process will commence sometime later this year.

We will write to Growers/interested parties to provide sufficient notice to enable them to appear and make submissions to the Court regarding this process.

In the meantime, we note the 2002 to 2009 Gunns Woodlot Schemes provided that proceeds of sale or harvest of any trees would be **pooled** and then distributed to all Growers in the relevant scheme. Accordingly, following the payment of the liabilities of the relevant schemes, the balance of the net funds allocated to each of the 2002 to 2009 GPL Woodlot Schemes will be shared between all Growers in the scheme, regardless of whether a Grower's Woodlot was located on Gunns Group Land or Third Party Land.

## 12 Grower loans

Some Growers in the 2002 to 2009 GPL Woodlot Schemes entered into loan agreements to fund their initial investment. While some Growers may have repaid their loans in full, other Growers have outstanding loans (**Grower Loans**).

A number of financiers of Grower Loans (**Financiers**) may assert a proprietary interest in and/or security claim over certain Joint Sale proceeds which would otherwise be payable to a Grower (**Sale Proceeds Entitlement**), if that Grower has an outstanding Grower Loan.

If there are competing claims by a Grower and their Financier to the Sale Proceeds Entitlement, the Sale Proceeds Entitlements will be held on trust by the RE pending resolution, either by agreement or court order. The 2002 to 2009 GPL Woodlot Schemes Proceeding will not determine the respective rights of the Financiers and Growers with Grower Loans.

Any queries relating to the repayment of Grower loans should be directed to:

- for loans by Gunns Finance, to the Gunns Receivers ([gnsenquiries@kordamentha.com](mailto:gnsenquiries@kordamentha.com))
- for loans by other financiers, to the financier direct.

Growers should consider seeking professional advice in relation to their investment.

## 13 Grower tax consequences

The sale of the Schemes Assets and payment of the Sale Proceeds Entitlement may have tax consequences for each Grower. The consequences for each Grower will depend on the Grower's individual circumstances. You may wish to seek advice from your personal financial or taxation adviser about the potential tax consequences of receiving your Sale Proceeds Entitlement and any choice you may make to give directions to pay your Sale Proceeds Entitlement to a Financier.

## 14 Comments and questions

The RE has established a telephone hotline facility and email facility so that Growers may provide any comments or questions (see the below section for contact details).

The Liquidators will record Grower comments and the Liquidators responses which will then be detailed in an affidavit to be filed with the Court for the Court Proceeding.

## 15 Further Information

The Liquidators will continue to update Growers regarding the Court Proceedings.

If you have any queries please contact the Liquidators by:

- calling the telephone hotline on (03) 9269 4160
- emailing at [gunns@ppbadvisory.com](mailto:gunns@ppbadvisory.com)

Further information may also be found online at:

[www.ppbadvisory.com.au/creditor-information](http://www.ppbadvisory.com.au/creditor-information)  
[www.abl.com.au/gunns/gunns.htm](http://www.abl.com.au/gunns/gunns.htm)