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(Receivers & Managers Appointed)
(In Liquidation)

GUNNS PLANTATIONS LIMITED
ABN 36 091 232 209
AFSL NO. 238701

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

Grower update – 9 May 2013
This update focuses on Gunns Plantations Woodlot Schemes 2002 to 2006 and 2008 (GPL Nominated Woodlot Schemes)
(Excludes the Great Southern Schemes)

Summary

The Restructure Proposal presented by WA Blue Gum and Macquarie has a number of risks compared to Supreme Court of Victoria (**the Court**) Approved sale process. It could:

- Cost you more than a Court Approved sale process (we estimate at least $21m more)
- Could require you to make additional cash contributions
- See significant amounts of fees accrue to the alternate responsible entity and service provider for many years
- Threaten the prospects of maximising the value of your investments
- Put your previously claimed tax deductions at risk

In addition, if you have borrowed funds from Gunns Finance Limited (Receivers and Managers Appointed) (In Liquidation) (**GFL**) to fund your investments, your loan could be called up if the Restructure Proposal is accepted.

We do not recommend that Growers support the present Restructure Proposal.

<u>You will need to decide</u>:

- Whether to pursue a Restructure Proposal that contains a number of additional risks and costs in managing your investment;

  Or

- A process where the Liquidators conduct an orderly sale process with your interests in mind, which is subject to the approval of the Courts.

The purpose of this update is to provide Growers with:

1. an update on the court approved sale process
2. comments on why the proposed scheme restructure proposal is not supported
3. clarification points related to the proposed scheme restructure proposal.

Growers are encouraged to read this update in its entirety before making a decision as to how to vote. Growers should make their own independent evaluation of the proposal and of the relevance and adequacy of the information contained herein, and should make such investigations as they deem necessary to determine whether and how to vote at the meetings.

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.

1. Court sets a hearing date for the application for power of sale

Our update of 6 and 19 April 2013 outlined the rationale for our conclusion that it was in the interests of Growers and stakeholders to pursue a court approved sale process of Growers' trees and not to continue with the alternate responsible entity process (**Alternate RE process**).

To that end, we applied to the Court for approval of a power of sale. The Court has set a date for the hearing of the application on 30 May 2013.

The rationale for this view (also submitted to the Court) includes the following:

- the economic returns for Growers were assessed as less beneficial under the Alternate RE process
- proposed amendments to constitutions under the Alternate RE process may not be in the interests of Growers
- there is a significant risk of lease terminations under an Alternate RE process
- Grower loans may be required to be repaid immediately under an Alternate RE process
- the uncertainty still surrounding the Alternate RE process including whether its conditions can be satisfied on a timely basis.

2. Restructure proposal - some important issues to consider

WA Blue Gum Ltd (**WABG**) and its service provider (**Macquarie**) have jointly released a restructure proposal (**Restructure Proposal**) to change the responsible entity (**RE**) of the GPL Woodlot Schemes for selected schemes (2002 to 2006 and 2008) (**GPL Woodlot Nominated Schemes**).

For the reasons set out in our updates to Growers on 6 and 19 April 2013, we believe that the Restructure Proposal is **not** in the interests of Growers and accordingly **we do not recommend** this to Growers. Additionally we note the following:

a. Requirement for growers to contribute money

The Restructure Proposal requires Growers to pay fees either by cash payment upfront (and then annually) or on a deferred basis (if you choose a deferred basis you will need to pay more).

The fee structure is complex, a material component of which appears to be fixed and not performance based.

Because of the complex fee structure, it is difficult to determine the total fees required. Based on a threshold of 60% of contributing Growers, the Restructuring Proposal's first year fees are estimated to be $21 million[1] fixed plus any other fixed and variable fees (e.g. subject to a sale or harvest).

[1] $21m estimate assumes:

- 60% Option A contributing Growers, being $150 Reset Contribution plus $140 Annual Contribution (first year only) multiplied by the approximate 63k hectares to be continued under the Restructure Proposal = 60% x $290 x 63,000 = $11m
- 40% Option B contributing Growers, being $205 Reset Contribution plus $195 Annual Contribution (first year only) multiplied by the approximate 63k hectares to be continued under the Restructure Proposal = 40% x $400 x 63,000 = $10m

i.e. **$21m in total**, but before any Management fee, RE fee and other performance based fees. Refer to the Restructure Proposal for further details on these fees.

b. Risks

The Restructure Proposal has a number of significant risks to Growers (some of these are identified in section 4 of the Restructure Proposal) and include:

- **termination of leases –** which would affect the rights of Growers to access the land where Growers' trees are located as well as potentially affecting Growers' rights to the trees
- **additional liabilities –** that may need to be met by Growers (e.g. expenses incurred by Macquarie or WABG including payment of back rent, costs associated with any necessary relief against forfeiture claim and other legal costs or liabilities)
- **additional contributions –** Growers may be required to pay more money than the Restructure Proposal currently requires. For example, there is unlimited liability to Growers for expenses (and the requirement to pay ongoing expenses even if Growers have elected to defer payment of fees)
- **tax risk –** it is not clear what the impact of the Restructure Proposal will be on your previously claimed deductions (also refer to Section 3c below)
- **insolvency risk –** there have been multiple failures in the managed investment scheme sector, particularly in relation to forestry plantations
- **WABG –** the proposed new RE is currently not compliant with ASIC requirements (also refer to Section 3d below)
- **delay risk –** the Restructure Proposal requires a number of conditions to be met before the new RE will take over. Additional delays will place the scheme assets at further risk (including the risk of ongoing lease terminations, difficulties in completing maintenance and future fire season risk)
- **termination risk –** the Restructure Proposal envisages calling Grower meetings to vote on accepting any offers. However, the alternate RE can terminate the GPL Woodlot Nominated Schemes under certain circumstances even if Growers vote to continue through to harvest.

c. Impact on Grower Loans

Roughly 1/3rd of Grower loans (for the GPL Woodlot Schemes) were financed by GFL.

The Receivers and Managers of GFL wrote to affected Growers on 6 May 2013 informing that a restructure of the GPL Woodlot Schemes will have Material Adverse Effect (as defined in the loan agreements between Growers and GFL) and will therefore ultimately entitle GFL to demand full repayment of Grower loans.

In their letter, the Receivers and Managers of GFL have also indicated that they will not call an Event of Default (as defined in the loan agreements between Growers and GFL) on the basis of the insolvency of GPL, contrary to what is noted in the Restructure Proposal.

Growers with loans should refer to the loan documentation in the first instance and contact their finance providers and financial advisers to discuss the impact of the Restructure Proposal.

We do not recommend that Growers support the present Restructure Proposal.

You may register your interest and obtain details of this proposal via the websites of WABG – wabluegum.com.au and Macquarie - macquarie.com.au/mgl/au/advisers/campaigns/gunnsschemes.

We recommend that you obtain appropriate advice, from a suitably qualified professional who is impartial to this proposal.

3. Some clarification points related to the Restructure Proposal

a. Professional fee cost comparison – Restructure Proposal v Court approved sale process

	Court approved sale[1] $	Restructure Proposal $
Existing liabilities[2]		
Liquidator (inc. legal fees)	$2.3 million	$2.3 million
Sale process[2]		
Liquidator fees (inc. legal fees)	$1.2 million	-
Macquarie fixed fees[3]	-	$21 million +
Macquarie variable fees	-	Unknown
Total	**$3.5 million**	**$23.3 million+**

Notes:

1. *Includes only the estimated costs related to the GPL Nominated Woodlot Schemes subject to the Restructuring Proposal to aid comparison. The remaining GPL Woodlot Schemes (2000, 2001 and 2009) will add approximately $0.2m to the total under the Court approved sale.*
2. *These costs exclude other GPL Nominated Woodlot Scheme liabilities (including maintenance and back rent) which may be payable under both the Court approved sale process and the Restructure Proposal.*
3. *Assumed to be for the first year only at the 60% contributing Growers threshold rates.*

i. What costs have the Liquidators incurred?

The Liquidators (and their lawyers) have incurred professional costs to date of approximately $2.3 million, or on a simple average $23.7 per hectare[2] for the GPL Woodlot Nominated Schemes subject to the Restructure Proposal.

Subject to the Court's approval, these costs would be payable out of Growers' assets under either the Restructure Proposal or the Court approved sale process. In other words, these costs will not be avoided if the Restructure Proposal is successful.

The Liquidators' estimated costs to run the Court approved sale process (including legal fees) are estimated to be $1.2 million or $12.2 per hectare[2].

Unlike the Restructure Proposal, the Liquidators' costs are subject to Court oversight and approval. Additionally, any Grower who wishes to query the Liquidators' fees has an opportunity to apply to be heard by the Court.

Additional costs that may be charged against the scheme assets include maintenance costs and costs incurred by other third parties relating to the GPL Woodlot Schemes (such as legal costs claimed against the Liquidators in the Court process and rent incurred since GPL went into administration). These additional costs may be payable under both the Court approved sale process and the Restructure Proposal.

[2] Amount per hectare will ultimately vary across the GPL Woodlot Nominated Schemes.

ii. What is the potential level of fees under the Restructure Proposal?

One estimate suggests that the fixed fees under the Restructure Proposal could be at least $21million in Year 1 alone. This excludes any other additional fixed or variable performance based fees.

The Restructure Proposal fee structure is complex, noting:

- it requires more cash contributions from Growers (in addition to what you have already invested)
- it has a material fixed cost component. Not all of the fees are performance based and therefore the fee structure is only partially aligned with Grower interests (performance based costs include the Variable RE fee and the Marketing and sales fee).

Fixed costs (additional to your initial investment) include:

- Reset contribution and deferred reset contribution ($150 to $205 per hectare, indexed)
- Annual contribution and deferred annual contribution ($100 to $195 per hectare, indexed)
- Management fee ($2.50 to $3 per green metric tonne, indexed).

Whilst rebates to Grower contributions may be available under the Restructure Proposal, the eligibility for rebates is subject to a number of conditions including for example a Grower paying all annual contributions (refer to Section 2.2. of the Restructure Proposal). The rebates may be funded in whole or part from the proceeds otherwise available to Growers.

b. How is the Court approved sale process different from the “one-line” sale outlined in the Restructure Proposal?

In summary, both sale processes would largely be run in the same manner, although as noted above, the sale under a Restructure Proposal will need to achieve a better result than the Court approved sale by at least the level of the incremental fees it will attract (the example above suggests it will need to be at least $21 million higher plus the extent of variable fees).

We note both processes will:

- be run in 2013
- target the same pool of potential purchasers
- be competitive and orderly
- be subject to the same industry and market conditions.

Benefits of a Court approved sale process compared to the Restructure Proposal include:

- **no requirement for additional monetary contributions by Growers**
- **the option to package assets of the Gunns Group with Grower assets** which we consider will help maximise value through the offer of a more attractive and larger asset group, and the potential to attract a broader pool of potential purchasers
- **being subject to Court oversight.** Whilst under the Restructure Proposal, you will be granting any new RE wide ranging powers without judicial oversight. Additionally, Growers are able to apply to have their voices heard at any of the Court hearings of the Court approved sale process
- **a standstill on Gunns Group lease terminations** with the Receivers and Managers of Gunns Ltd and subsidiaries (Receivers and Managers appointed) (in Liquidation) (**Gunns Group**) (**Receivers**), whereas we expect the Receivers will seek to terminate leases under a Restructure Proposal
- **a proposed waiver of outstanding pre-administration back rent on the Gunns Group leases** by the Receivers, which will reduce the costs deducted from the proceeds of sale

- **the certainty that a sale can be completed.** The approval process for a "One-Line" sale process under the Restructure Proposal may create market uncertainty and deter potential purchasers from making a full bid for the trees (i.e. prospective purchasers may offer less)

It is also important to note:

- The Liquidators do not have to accept an offer for your assets if it is deemed not in the best interests of Growers. They will continue to explore other options if an acceptable offer is not obtained.
- If the Liquidators receive an offer for your assets that is acceptable, they will return to Court to obtain approval to accept the offer.

c. What are the tax risks for Growers of the Restructure Proposal?

The tax risks for Growers are currently unknown.

The alternative responsible entity has not yet obtained confirmation from the Australian Tax Office (**ATO**) that the Restructure Proposal will not change the current tax treatment of the Schemes (e.g. in relation to the deductibility of fees incurred in previous years).

There is a risk to Growers that the Restructure Proposal will adversely impact the existing tax rulings in relation to the GPL Woodlot Nominated Schemes if the ATO consider that changes to the schemes '*are significant enough to affect your tax outcomes'*.

Generally, the ATO will not seek to clawback tax deductions under a wind-up scenario, although no determination has yet been made in respect of the GPL Woodlot Schemes.

More information can be found at:

http://www.ato.gov.au/atp/PrintFriendly.aspx?ms=atp&doc=/content/00193782.htm

d. Is WABG able to manage forestry schemes?

Section 6 of the Restructure Proposal highlights that WABG (at the time the proposal was prepared) was not compliant with ASIC. This may be of concern to both ASIC and the Growers.

e. Further questions?

If you have any further questions please address them to the following contacts:

Contact	**Contact Phone Number**	**Contact Email Address**
GPL Client Services	(03) 6335 5290	gunns.plantations@gunns.com.au
PPB Advisory	(03) 9269 4160	gunns@ppbadvisory.com