

15 July 2009

Dear Bond Holder / Note Holder

TIMBERCORP LIMITED (IN LIQUIDATION) ("Timbercorp") - INFORMATION

This letter is an update for investors issued by Trust Company Fiduciary Services Limited (formerly Permanent Trustee Company Limited), which is the Trustee for the holders of the following debt instruments issued by Timbercorp:

TIMBERCORP 2005 ASX LISTED BOND

TIMBERCORP FINANCE BOND

TIMBERCORP SUBORDINATED UNSECURED CONVERTIBLE NOTE (ASX LISTED)

All of the above are unsecured notes (since they are not secured by a fixed and floating charge against the issuer), although the Trustee holds various other securities on behalf of the investors. Further comment on the current status of each of these matters appears below.

On 23 April 2009, the directors of Timbercorp appointed Mark Korda, Mark Mentha, Craig Shepard and Leanne Chessier, Partners of the firm KordaMentha as Voluntary Administrators, ("Administrators") to the Timbercorp group of companies. At meetings held on 29 June 2009 creditors voted to wind up Timbercorp. The Administrators became the liquidators of Timbercorp ("Liquidators") with effect from the same date. The Trustee represents the investors' interests on the Timbercorp Committee of Inspection.

Security Enforcement - General

As previously advised (refer to the Trustee's letter dated 18 May 2009) a party holding security may not enforce their security during the administration period, unless the security relates to the whole or substantially the whole of the property of the company under administration.

With the administration having now ended, it has become possible for the Trustee to appoint a Controller (receiver) and enforce the various securities held on behalf of the investors. The Trust Deeds relating to the debt instruments referred to above provide that at the first instance only the Trustee may enforce the provisions of those Trust Deeds.

Timbercorp ASX Listed 2005 Bond

The limited security supporting this borrowing by Timbercorp consists of guarantees and mortgages, held by the Trustee, from four (4) Timbercorp group companies. Additional security is an amount of cash held in an interest bearing bank account controlled by the Trustee.

There are altogether eleven (11) mortgages over rural land provided by the companies and held by the Trustee. There are at least two (2) types of these, requiring different legal processes for their enforcement. The Trustee has served notices on the relevant Timbercorp group companies required by those mortgages to be so served in an event of default. Accordingly, the rights of the investors have been safeguarded in this respect.

On 16 June 2009, the then Administrators issued an Australian Stock Exchange ("ASX") announcement to the effect that interest payments on the Bond were suspended from 23 April 2009 and that no interest would be paid to the Bond Holders as at 30 June 2009. This constitutes a monetary default under the Trust Deed. The Trust Deed requires the Trustee to convene a meeting of the Bond Holders "as soon as reasonably practicable after receiving notice of an Event of Default". The Trust Deed also provides that:

"The Trustee will be entitled where an Event of Default subsists:

- (a) to commence proceedings for the winding up of Timbercorp where Bond Holders that together hold not less than three-quarters in amount of Bonds held by all Bond Holders consent in writing;
- (b) to take such other action relating to enforcement of payment of Moneys Owing (including without limitation requiring Timbercorp to redeem the Bonds, requiring an immediate payment of all Moneys Owing and suing for or obtaining judgment for all Moneys Owing);
- (c) to prove in any Liquidation of Timbercorp (irrespective of when that Liquidation is commenced) subject to the Trust Deed; and
- (d) enforce the rights granted to the Trustee under the Transaction Documents".

The expression "Transaction Documents" refers essentially to the Trust Deed and the securities.

The Trustee considers that it would not be in the interests of the investors to convene a meeting of the Bond Holders at the present time since:

- Timbercorp has been placed in liquidation by creditors and, therefore, the objective of sub-paragraph (a) above has been fulfilled;
- the Trustee has lodged proofs of debt with the then Administrators and served all notices required to be served under the securities that the Trustee is able to serve to safeguard the investors' rights (as contemplated by sub-paragraphs (b), (c) and (d) above); and
- the Trustee will shortly commence a process of security enforcement – please refer to the following summary of enforcement steps.

The enforcement process which the Trustee will be effecting will include the following steps:

- as provided in the Trust Deed, appointment of a Controller under the real property mortgages as its agent;
- procurement by the agent of independent valuations, taking into account the existence or absence of economic activity and rentals on each particular land parcel, the state of the market, comparison of likely realization if the land were to be sold immediately with the proceeds of a disposal at a later date, the impact of the replacement of the Responsible Entity in managed investment schemes on some of the land, etc;

- issue by the Controller of invitations to selling agents (2-3) to provide comprehensive submissions for the marketing and sale of the land (within the framework and timing recommended by the independent valuer);
- consider whether it is necessary in their interests, or otherwise required, for a meeting of the Bond Holders to be convened to provide directions to the Trustee
- consultations between the Controller and the Trustee as to the actual timing of disposal of the land, reserve price(s), etc;
- working with the Controller to ensure any disposal of the securities is as efficient as possible, yielding the highest achievable return to the investors in the given market conditions; and
- distribution of the net proceeds of the disposal to the Bond Holders.

The eventual monetary return to the Timbercorp 2005 Bond Holders will largely depend on the quantum of net proceeds from the disposal of the security properties. It is not possible to estimate any particular return in the absence of valuations and firm offers from purchasers.

Timbercorp Finance Bond

The limited security supporting this borrowing by Timbercorp consists of a Fixed and Floating Charge held by the Trustee over certain loans advanced to Growers in Timbercorp' silvicultural projects by a Timbercorp group company, Timbercorp Finance Pty Ltd (in Liquidation) ("TFP").

The then Administrators, now Liquidators, have previously confirmed to the Trustee that:

- (a) the loans associated with the security held by the Trustee are full recourse in nature;
- (b) no shortfall was anticipated on the amount owing under the Bonds, given the historical performance of the loan book and low incidence of loan arrears; and
- (c) enhanced collection processes had been put in place by the Liquidators which, together with the quality of Timbercorp's staff and systems, were likely to ensure a successful collection of the loan book.

In respect of the most recent interest payment to the Bond Holders, loan moneys collected were banked in an interest bearing bank account controlled by the Trustee and a distribution subsequently effected by the Liquidator and its agent, Computershare Services Pty Ltd. This process will continue in respect of future such loan money collections (net of collection and distribution expenses and accrued Trustee fees and expenses) as well as interest payments to the Bond Holders.

Despite earlier advice received by the Trustee that it appeared likely the Bond Holders would be paid both the interest and principal due to them as originally contemplated by this transaction, the Liquidators have now informed the Trustee of the following matters:

- **arrears of payments of interest on the portion of the TFP loan book have increased in recent weeks; and**
- **the term to maturity of the loan book significantly exceeds the period between now and the due date for repayment of the Bonds (31 March 2010).**

In these circumstances, it will be impossible for the Bonds to be repaid by 31 March 2010, although collections are expected to continue (subject to any arrears or loan delinquency) and so interest payments to the Bond Holders are at present expected to continue in accordance with the terms of the Bonds.

The Trust Deed requires the Trustee to convene a meeting of the Bond Holders "as soon as reasonably practicable after receiving notice of an Event of Default". The administration and liquidation of Timbercorp are such "Events of Default".

To date, there has been no monetary default and for this reason the Trustee is of the view that it would not be in the interests of the Bond Holders to either call a meeting of the Bond Holders or enforce the Fixed and Floating Charge referred to above at this time. These actions would simply introduce another layer of expense (by the appointment of a receiver) but would be unlikely to improve the collection process.

However, if collections of interest on the relevant portion of the loan book become insufficient to pay interest and/or to repay the Bonds on maturity, a monetary default will occur.

In such circumstances, the Trustee will need to again consider whether it is in the interests of the Bond Holders to take enforcement action and call a meeting of the Bond Holders. Enforcing the Fixed and Floating Charge would mean appointing a receiver to the uncollected portion of TFP's loan book covered by this security with a view to selling or refinancing the relevant part of its loan book. Whether these actions can and should be taken will need to be weighed up against factors including any undertaking by the Liquidators to carry out the same tasks that a receiver would (at no cost to the Bond Holders), the additional cost of a receiver and the state of the market for loans referable to potentially discontinued Timbercorp agricultural projects.

The eventual monetary return to the holders of Timbercorp Finance Bonds will depend on whether the Liquidators' team succeeds in collecting in full the moneys owed to the Bond Holders, and consequently, whether the Trustee must take steps to enforce the Fixed and Floating Charge. On the basis of information now available to the Trustee, in the absence of the TFP loans being sold or refinanced, it will not be possible for the Bonds to be repaid at maturity, on 31 March 2010, since the loans underpinning the Bonds have a significantly longer maturity profile than the Bonds. The Trustee will continue to monitor the situation and assess what action (if any) should be taken in the interests of the Bond Holders as further information comes to hand.

Timbercorp Subordinated Unsecured Convertible Notes ("Notes") (ASX Listed)

The Notes are unsecured obligations of the issuer and are neither guaranteed nor secured by any entity.

On 24 June 2009, the then Administrators issued an ASX announcement to the effect that:

- an "Acceleration Event" (as defined in the "Terms of Issue" of the Notes) had occurred; and
- until further notice, no requests for redemption of the Notes would be honoured.

Clause 13.1 of Schedule 1 of the Trust Deed states that at the first instance only the Trustee may enforce the provisions of the applicable Terms of Issue, in the following circumstances:

- “(a) where any Deferred Coupons have not been paid in accordance with clause 2.8(c); or
- (b) where the issuers has determined to Redeem Notes but the Redemption has not been completed”.

The capitalized words above have the meanings assigned to them in the Trust Deed.

The Trust Deed also provides that:

“The Trustee is not bound to take any action referred to in clause 13.1 unless:

- (a) it has been:
 - (i) so requested in writing by Holders holding 10% or more of Notes on issue; or
 - (ii) directed by Special Resolution; and
- (b) its liability is limited in a manner consistent with clause 8 of the Trust Deed;
- (c) it is indemnified to its satisfaction by the Holders or the Issuer against all costs, charges, liabilities and expenses which may be incurred by it in connection with that action”.

The Trustee considers it would not be in the interests of the investors to convene a meeting of the Note Holders at the present time since:

- no further relevant information is available to the Trustee;
- the Trustee holds no security that could be enforced; and
- the convening of a meeting at this time would result in an unnecessary expense which would need to be funded in advance by the investors (since the Trustee holds no funds, there is no security that may be enforced and the Trustee would need to be indemnified by the Holders in advance of incurring any such expenses).

As stated in the Trustee’s letter of 18 May 2009, the amount of moneys (if any) which the Note Holders may ultimately expect will depend on whether or not any funds may be found in Timbercorp to meet its obligations to the Note Holders. Given the unsecured and subordinated position of the Holders and the fact that the Liquidators have indicated that Timbercorp lacks the necessary funds even to pay its higher ranking and / or secured creditors, it appears that the prospect of any recovery by the Bond Holders is at present poor.

The Way Forward

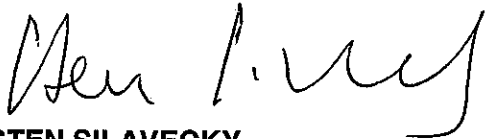
- in respect of the Timbercorp 2005 Bonds, the Trustee will commence implementing the enforcement process detailed above;
- in regard to the Timbercorp Finance Bond, the Trustee will continue to liaise with the Liquidators (as to the prospects of full repayment of the Bonds on the due date) and in the meantime continue to monitor the receipt of moneys required to make the applicable quarterly interest payments; and
- as far as the Timbercorp Subordinated Unsecured Convertible Notes are concerned, monitor any further announcement by the Liquidator, and seek to enforce the Terms of Issue should any funds become available to pay the Holders

The Trustee will also continue to liaise with the Liquidators, always acting in the interests of investors.

The Trustee will endeavour to post further updates (if required) on the Timbercorp website.

Yours faithfully

for and on behalf of Trust Company Fiduciary Services Limited A.C.N. 000 000 993

A handwritten signature in black ink, appearing to read 'Sten Silavecky', is positioned above the printed name.

STEN SILAVECKY
MANAGER – STRUCTURED FINANCE

Contact details for investor questions – please direct any questions relating to the liquidation to the Liquidators (KordaMentha Pty Ltd):

Timbercorp Hotline: 1800 628 188 or:

KordaMentha Pty Ltd
Level 24, 333 Collins Street
Melbourne 3000

Tel. (03) 8623 3333
Fax (03) 8623 3399

In the event your question is of a type that only the Trustee may answer, your query will be referred to the Trustee by the Liquidators.