

24 February 2010

Dear Bond Holder

**TIMBERCORP LIMITED (IN LIQUIDATION) ("Timbercorp") -
TIMBERCORP FINANCE BOND INFORMATION**

This letter is a further update for investors issued by Trust Company Fiduciary Services Limited (formerly Permanent Trustee Company Limited), which is the Trustee for the holders of Timbercorp Finance Bonds ("Bond Holders").

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").

Insufficiency of Funds to pay Interest and Repay Bonds on 31 March 2010

As stated in the Trustee's previous update, dated 18 September 2009, the Liquidators had advised the Trustee that:

- arrears of payments of interest on the portion of the TFP loan book secured in favour of the Trustee on behalf of the Bond Holders had increased in previous weeks; and
- the term to maturity of the loan book significantly exceeded the period between then and the due date for repayment of the Bonds (31 March 2010).

Based on the most recent information received from the Liquidators, the arrears position has continued to deteriorate in recent months with arrears related to the relevant portion of the TFP loan book increasing by 17% in January 2010.

In these circumstances, the Liquidators will not have sufficient funds to make quarterly interest payments to the Bond Holders for the foreseeable future and, as previously advised, it will be impossible for the Bonds to be repaid by 31 March 2010.

Meeting of the Bond Holders, Enforcing the Fixed and Floating Charge and Appointing a Receiver

The non-payment of interest is a monetary Event of Default defined in the relevant Trust Deed. The administration and liquidation of Timbercorp are also Events of 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 Trustee has again considered whether it is in the interests of the Bond Holders to take enforcement action and call a meeting of the Bond Holders. In the current circumstances, the Trustee is of the view that while an Event of Default has occurred, it would not be in the interests of the Bond Holders to either call a meeting or enforce the Fixed and Floating Charge referred to above, including the appointment of a receiver to the uncollected portion of TFP’s loan book.

Whether these actions can and should be taken needs to be continually weighed up against factors including:

- any undertaking by the Liquidators to carry out the same tasks that a receiver would (at no additional cost to the Bond Holders);
- access to Timbercorp’s premises and experienced collections team;
- real-time access to Timbercorp’s information management system as opposed to a download of the relevant loan details at a particular point in time; and
- the additional cost of a receiver and the state of the market for loans referable to potentially discontinued Timbercorp agricultural projects.

As previously advised, crystallization of the Fixed and Floating Charge will enable future payments to Bond Holders to initially represent return of capital, rather than taxable interest. However, there is currently no imperative to take this action while insufficient funds are being collected to make any meaningful distribution to the Bond Holders. Accordingly, the crystallisation of the Fixed and Floating Charge will again be considered by the Trustee once the matter of collections – currently before the courts – is resolved.

Loan Book Collections

The Liquidators have informed the trustee that loan book collections have been adversely affected by the commencement of a class action against TFP by Macpherson + Kelley Lawyers (M+K), representing some 89, or about 67% of the growers who had borrowed funds from TFP. According to the Liquidators, the majority of M+K clients have ceased payment of their loans and cancel direct debit authorisations. The following table summarises the current status of the portion of the loan book attributable to the Timbercorp Finance Bond:

Loans outstanding (31 January 2010)	\$13,679,453
Number of loans	146
Number of individual Borrowers	115
Arrears (31 January 2010)	\$1,491,336
Number of loans in arrears	122
Average loan size	\$93,695
Average maturity date	January 2015

The Liquidators have confirmed that outbound calls are made each month to all contactable borrowers in arrears with the exception of K+M clients who may not be so contacted. Demand letters are sent to borrowers who miss a scheduled payment, giving 14 days to rectify the arrears and final demand letters are sent to those who fail to rectify arrears, making the full balance of the loan to be due and payable. Given the arrears position and these and other actions taken by the Liquidator in an attempt to recover monies owing to Finance Bond investors, the Trustee is currently unable to justify the convening of a meeting of the Bond Holders or appointment of a receiver. All loan moneys collected continue to be banked in an interest bearing bank account controlled by the Trustee.

The following is a summary of collections to date:

	Amount (\$)
Opening balance (23 April 2009)	13,000,280
Less scheduled collections	(552,159)
Other movements	8,944
Add interest	1,222,388
Closing balance (31 January 2010)	13,679,453
Average monthly collections	55,216
Total collections in January 2010	40,459

The Liquidators have advised that at 23 April 2009, when they were initially appointed as Administrators, total arrears were \$109,968. Arrears have increased since their appointment to \$1,491,336, primarily due to the large representation of Borrowers in the Finance Bond loan pool by M+K. Arrears aging by days as at 31 January 2010 is broken down as follows:

	Amount (\$)	%
30 days	214,282	14%
60 days	205,051	14%
90 days	200,126	13%
120 days	132,995	9%
120+ days	738,882	50%
Total	1,491,336	

The top 10 Borrowers in arrears account for \$525,652 (35%) of these arrears.

The Liquidators have provided a further update to the Trustee as follows:

On 3 July 2009, proceedings were filed by the Liquidators on behalf of TFP against 20 Borrowers in the Supreme Court of Victoria who had not complied with the final demand issued. These proceedings are ongoing and the status is summarised as follows:

- Two claims have been settled;
- Three defendants have become bankrupt and the proceedings discontinued against them;
- Judgement in default of appearance and defence has been obtained against four defendants;
- Applications to strike out the defective defences filed and obtain judgement against one defendant is underway; and

The remaining ten claims are on foot and are being defended.

The Liquidators anticipate the outcome of these proceedings will indicate the future collectability of TFP loans in default, including those loans within the Finance Bond loan pool.

Class Action

On 28 October 2009 M+K served the Liquidators on behalf of TFP with documents commencing a Class Action, including a Writ, Statement of Claim, Summons (seeking orders that the plaintiff be granted leave to proceed under s500(2) of the Corporations Act) and an affidavit sworn by Robert Hamilton Downing (M+K solicitor).

Prior to commencing a trial of the issues raised by M+K on behalf of their clients, leave to proceed against the Liquidators on behalf of TFP must be granted by the Court given TFP is in Liquidation.

In order to reduce litigation costs, both the Individual Proceedings and the Class Action are being heard concurrently by Justice Judd in the Supreme Court of Victoria.

The Way Forward

The eventual monetary return to the TFP Bond Holders will depend on whether the Liquidators' team – in future with the receiver's supervision - succeeds in collecting in full the moneys owed to the Bond Holders. This, in turn, will be contingent upon the outcome of the Liquidators' legal proceedings against individual TFP borrowers and the class action.

On the basis of information now available to the Trustee, in the absence of the TFP loans being sold or refinanced (considered not to be a realistic option given the high borrower delinquency), it will not be possible for the Bonds to continue to pay interest – at least for the foreseeable future - and 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), including the calling of a meeting of Bond Holders, should be taken in their interests as further information on the progress of this liquidation/receivership comes to hand.

The Trustee will endeavour to post further updates (if required) and provide the details of the receiver, once an appointment has been made, on the Timbercorp website.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Sten P. Silavecky', is written below the 'Yours faithfully' text.

STEN SILAVECKY
HEAD OF STRUCTURED FINANCE SERVICES

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.