



29 April 2011

Dear Bond Holder

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

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

Security and Arrears

As outlined in previous updates, the Timbercorp Finance Bonds borrowing is secured by a Fixed and Floating Charge held by the Trustee over certain loans advanced to Grower borrowers in Timbercorp silvicultural projects by a Timbercorp group company, Timbercorp Finance Pty Ltd (in Liquidation) ("TFP").

Although the Bonds matured on 31 March 2010, it has not been possible for the Bonds to be repaid for the following reasons:

- (a) the majority of the loans which secure the Bonds have expiry dates well beyond 31 March 2010; and
- (b) Grower borrowers have been advised by Macpherson + Kelley Lawyers (M+K) to stop payments of interest and/or not repay their loans. M+K also represent many Grower borrowers in a class action against TFP.

Since our last update the arrears position has again worsened and, as a result, it has not been possible to make quarterly interest payments to the Bond Holders or repay any part of the monies owing on the Bonds. The non-payment of interest on most of the loans means they are unattractive and practically unsaleable.

Loan Book Collections

The Liquidators (KordaMentha) have informed the Trustee that loan book collections continue to be adversely affected by the class action against TFP by Macpherson + Kelley Lawyers (M+K), representing 64% of the 113 individual growers who had borrowed funds from TFP and whose loans secure the Bonds. The following table summarises the current status of the portion of the loan book attributable to the Timbercorp Finance Bond:

Loans outstanding (31 March 2011)	\$15,174,479
Number of loans	144
Number of individual Borrowers	113
Arrears (31 March 2011)	\$4,511,483
Number of loans in arrears	117
Average loan size	\$97,923
Average maturity date	30 January 2015

The Liquidators have confirmed that outbound calls continue to be made each month to all contactable borrowers in arrears with the exception of M+K clients who may not be so contacted. The focus of such calls is to obtain directions from Grower borrowers to pay interest on/repay their loans from the proceeds they receive from the Projects in which they have invested.

Demand letters are also being sent to borrowers who miss a scheduled payment, giving them 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 has been 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 collections	(1,072,251)*
Other movements	5,497
Add interest	3,240,953
Closing balance (31 March 2011)	15,174,479
Average monthly collections	46,832
Total collections in March 2011	28,552

* Please note that this gross amount includes a distribution of \$199,512.03 made by the Liquidators in May 2009, legal fees incurred by the Trustee shortly after commencement of the appointment of the Liquidators (initially appointed as Administrators), on-going collection fees and Trustee fees. After crediting interest, the net amount held by the Trustee as at 31 March 2011 totalled \$766,667.73.

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 \$4,511,482 at 31 March 2011, primarily due to the large representation of borrowers in the Finance Bond loan pool by M+K clients.

The aging of arrears by days as at 31 March 2011 is broken down as follows:

	Amount (\$)	%
30 days	220,965	5%
60 days	219,711	5%
90 days	220,660	5%
120 days	220,143	5%
120+ days	3,630,004	80%
Total	4,511,483	100%

Class Action and individual debt proceedings

Class Action

On 28 October 2009 M+K served the Liquidators of TFP with documents commencing a class action. Leave to proceed with that class action against TFP and others under s500(2) was granted by the Court on 29 April 2010.

On 30 July 2010 the Court considered it was appropriate to split the trial of the class action into two stages. The first stage will deal with the questions of breach, reliance, causation and whether damage had been suffered, while the second stage will address questions as to quantum of damage, proportionate liability, indemnity and contribution.

Amendments to Statement of Claim

In February 2011 and again in April 2011, the Statement of Claim in the class action was substantially amended including to add new causes of action. The new causes of action arise out of:

1. an alleged failure to disclose to scheme members that by investing in a scheme, they would become exposed to risks associated with the maintenance of cash flows of the Timbercorp Group including risks associated with:
 - the failure of other scheme members to make scheme contributions to TSL and/or where relevant to repay loans to TFL;
 - the capacity of the Timbercorp Group to obtain and/or service external funding; and
 - the availability to the Timbercorp Group of securitisation of loans; and
2. an alleged failure to comply with continuous disclosure obligations in respect of schemes under the Corporations Act.

Trial date

As a result of the amendments to the Statement of Claim and the filing of supplementary expert material by the Plaintiff in mid April 2011, the timelines previously fixed by the Court between October 2010 and January 2011 for the filing and service of evidence, and the commencement of the trial, had to be varied. As a consequence of these variations the first stage trial date of 3 May 2011 was moved to 23 May 2011.

Mediation

A confidential and without prejudice mediation between all parties was held on 20 and 21 April 2011. No resolution of the proceeding, or any part of it, was reached on these dates. The mediation was therefore adjourned but not terminated.

Individual debt proceedings

On 3 July 2009, proceedings were filed by the Liquidators of TFP against 20 Borrowers in the Supreme Court of Victoria who had not complied with the final demand issued. The current status of these proceedings is summarised as follows:

- two claims have been settled;
- seven defendants have become bankrupt and the proceedings dismissed against them;
- judgement in default of appearance and defence has been obtained against one defendant;
- one defendant has advised of their intention to file for Bankruptcy; and
- the remaining nine claims are on foot ,are being defended and at this stage remain adjourned until the first day of the trial proceeding, on which day further directions will be made as to the conduct of these proceedings.

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

As outlined in earlier updates, the non-payment of interest and non-repayment of the Bonds are monetary Events 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 continues to consider 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 whilst 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:

- an undertaking by the Liquidators to carry out the same tasks that a receiver would - i.e. collecting all collectible interests on the loans (at no additional cost to the Bond Holders);
- 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 consist of 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. The Trustee will reconsider the position when the matter of collections – currently before the courts – has been resolved and, as is expected, loan repayments resume or, if so determined by the court, do not need to be made

The Way Forward

The eventual monetary return to the TFP Bond Holders will depend on whether the Liquidators' team (with involvement by any receiver appointed by the Trustee as and when relevant) succeeds in collecting in full or any part of 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 currently available to the Trustee:

- **it was not possible to repay the Bonds at maturity, on 31 March 2010; and**
- **it is not possible for the Bonds to pay interest or repay any part of the principal – at least for the foreseeable future**

As previously advised, even if interest on the loans was being collected in full, it would not have been possible to repay the Bonds at maturity since the loans underpinning them 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, including the current mediation and outcome of court proceedings (if applicable) comes to hand.

The Trustee will endeavour to post further updates (as may be required) on the Liquidators' website.

Yours faithfully



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.