

IN THE SUPREME COURT OF VICTORIA AT MELBOURNE
COMMERCIAL AND EQUITY DIVISION
COMMERCIAL COURT

LIST D
S CI 2011 6604

BETWEEN

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED (ACN 005 357 522)

Plaintiff

and

OIM#2 PTY LTD (RECEIVERS AND MANAGERS APPOINTED) (ACN 112 691 997) AS
TRUSTEE FOR TIMBERCORP ORCHARD TRUST #3 and others (according to the schedule
attached)

Defendants

CERTIFICATE IDENTIFYING EXHIBIT

Date sworn: 20 September 2012

Filed on behalf of: The First and Second Defendants

Prepared by:

Maddocks

Lawyers

140 William Street

Melbourne VIC 3000

Solicitor's Code: 230

DX 259 Melbourne

Tel: (03) 9288 0555

Fax: (03) 9288 0666

Ref: 5885053.001

Attention: Philip Jones

Email: philip.jones@maddocks.com.au

This is the exhibit marked "**ADF-6**" now produced and shown to **Alan David Fisher** at the time of
swearing his affidavit on 20 September 2012.

Before me:



Signature of person taking affidavit

STEVEN MICHAEL TANG
140 William St Melbourne 3000
An Australian Legal Practitioner
within the meaning of the
Legal Profession Act 2004.

Exhibit "ADF-6"
Copy of TPIF 2011 Financial Report

TIMBERCORP PRIMARY INFRASTRUCTURE FUND

ARSN 116 024 830

Financial Statements for the year ended 30 June 2011

Table of Contents

Responsible Entity

Align Funds Management Limited

(AFSL No 234554 ABN 34 105 684 231)

Registered Office

Level 33, 360 Collins Street

Melbourne VIC 3000

Ph 03 9691 5414

Website www.TPIF.com.au

Directors

Alan Fisher (Chairman)

Sam Baillieu

Trevor Moyle

Company Secretary

Andrew Ashbolt

Registrar

Align Funds Management Limited

Level 33, 360 Collins Street

Melbourne VIC 3000

Ph 03 9636 4855

Website www.TPIF.com.au

Custodian

Trust Company Limited

(AFSL No 235148 ABN 59 004 027 749)

Level 3, 530 Collins Street

PO Box 361

Collins Street West

Victoria 8007

Auditor

Grant Thornton Audit Pty Ltd

Level 30, The Rialto

525 Collins Street

Melbourne VIC 3000

GPO Box 4736

Melbourne VIC 3001

	Page
Directors' Report	1
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
Directors' Declaration.....	22
Auditor's Independence Declaration.....	23
Independent Auditor's Report.....	24

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

DIRECTORS' REPORT

The directors of Align Funds Management Limited ('Align'), the Responsible Entity for Timbercorp Primary Infrastructure Fund ('the Fund') present their report for the Fund and its controlled entities ('the Group') for the year ended 30 June 2011.

Directors

The names of the directors in office during or since the end of the year are:

Alan Fisher
Trevor Moyle
Sam Baillieu

Principal Activity

The principal activity of the Group during the year was to monitor the holding of the proceeds from sale of the Group's properties, which are held by Receivers and Managers, and to act in relation to the action instituted by the secured lender, ANZ Banking Group Limited, to determine the respective rights to those sale proceeds as set out by the Supreme Court of Victoria.

Review of Operations

During the year ended 30 June 2011 the Group earned interest on the proceeds from the sale of the three properties which had been sold in the previous financial year by the Receivers & Managers, as follows:

Property	Settlement Date	Consideration
Yungera	19 February 2010	\$116.3 million
Liparoo	19 February 2010	\$43.6 million
Solora	9 April 2010	\$13.1 million

The Group continued to accrue interest on borrowings which remain due to the secured lender by the subsidiary trusts as the proceeds from the sale of the properties are not available to the secured lender until the above determination has been made by the Supreme Court. Interest is also continuing to accrue on the TPIF Bonds which remain as borrowings of the parent trust. Receivers and management fees are also continuing to be incurred.

Operating Results

The loss of the Group for the year was \$6,396,129. This loss is the result of the Group earning deposit rate interest on the proceeds from the sale of properties but continuing to incur ongoing finance costs and management costs as well as costs associated with the receivership of the sub-trusts.

The operating result for the year and the assets of the Group do not take into account future costs which may yet be deducted by the Receivers or as directed by the Supreme Court of Victoria.

The appointment of Receivers to the sub-trusts of the Fund has placed the Fund in technical breach of its obligations to the Trustee for the Bond Holders. The Trustee has given notice of the crystallisation of the charge to the Bond Holders, but has taken no further action to enhance such charge. The directors continue to be in regular communication with the Trustee and Bond Holders concerning developments with the legal proceedings and the eventual settlement of the liabilities of the sub-trusts.

It should be stressed that the directors do not have control of any assets of the sub-trusts or the legal proceedings but continue to monitor developments on a regular basis.

Net Asset Position of the Group

Unit holders should be aware that the financial statements of the Group as at 30 June 2011 have not been prepared on a liquidation basis and they do not take into account future costs relating to the Receivers, legal advisors, fund operation and management, interest costs on borrowings or potential claims against the proceeds from sale of the properties.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

DIRECTORS' REPORT

Significant Changes in State of Affairs

Other than as disclosed above, no significant changes in the Group's state of affairs occurred during the year.

After Reporting Period Events

(i) *Rights of Growers' Schemes*

On 15 June 2011, Justice Davies of the Supreme Court of Victoria handed down her decision in the test case of BOSI Security Services Limited v Australia and New Zealand Banking Group Limited & Ors. ('the Almond Land case'). That case determined some related/complimentary issues concerning the Timbercorp Almond Schemes. The decision has been appealed by lawyers representing the MIS Growers and a date for hearing that appeal has yet to be set.

The Supreme Court is also yet to determine the growers' rights and the value of those rights, if any, in relation to the almond and citrus schemes that were being conducted on the Group's properties. Various almond schemes were conducted on the Group's Liparoo and Yungera properties and a citrus scheme on the Group's Solora property.

In December 2011, the secured lender, ANZ Banking Group Limited, initiated proceedings in the Supreme Court of Victoria to pursue its interests in the proceeds from sale of the Liparoo, Yungera and Solora properties and to have the Growers' rights in relation to those property proceeds determined.

In July 2012 two separate Deeds of Compromise were entered into in relation to proceeds from the sale of the Solora citrus property and the Liparoo/Yungera almond properties. Those Deeds set out an agreed position between the secured lender, representative Growers from the Timbercorp Citrus Projects and Timbercorp Almond Projects, the Liquidator of Timbercorp Limited Group and the Trustees of the TPIF subsidiary trusts and detail the agreed amounts to be paid to the Responsible Entity of the Timbercorp Schemes for their Growers. Each Deed is conditional upon its approval by the Supreme Court of Victoria and also upon the approval by the Court of the other (four) Deeds of Compromise that the Court is considering in relation to other Timbercorp Schemes. The Supreme Court has set a hearing date of 5 October 2012 to consider these matters.

Until such time as these legal issues are determined there is no manner in which the directors can make a reasonable assessment of the residual value of the sale proceeds.

(ii) *Professional Indemnity Insurance*

Under its Australian Financial Services Licence, Align is required to maintain an insurance policy covering professional indemnity ('PI') and fraud by officers that is adequate, having regard to the nature of the activities carried out by the licensee under the licence, and which covers claims amounting in aggregate to a minimum of \$5 million.

There has been a significant tightening of the PI insurance market following the demise of major agricultural managed investment schemes and difficult conditions faced by the funds management industry. As a consequence, and despite the best efforts of the directors, Align has been unable to renew its PI insurance policy for the minimum amount of cover of \$5 million and has advised ASIC of the lesser cover of \$1 million that it has been able to obtain.

Likely Developments

Due to continuing borrowing costs being incurred by the Group, and irrespective of the outcome of the legal entitlement of Timbercorp Growers to the net proceeds from the sale of the Group's properties, there will be insufficient funds to pay the liabilities due to the secured TPIF bond holders. Accordingly, unit holders in the Fund will not receive any further distributions or any return of capital.

Other than the matters previously discussed, the directors are not aware of any likely developments that are outside the normal operation of the Group.

Environmental Issues

To the best of the directors' knowledge, all activities are performed in accordance with the requirements of relevant environmental regulations.

Distributions paid or recommended

The directors have not declared or paid a distribution for the year ended 30 June 2011.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

DIRECTORS' REPORT

Options

No options have been issued during or since the financial year and there were no options outstanding at the end of the financial year.

Indemnifying of Officers or Auditor

During the year, the Responsible Entity of the Fund has paid premiums in respect of an insurance contract to indemnify officers against liabilities that may arise from their position as officers of the Fund. Officers indemnified include all directors, the company secretary and all executive officers participating in the management of the Fund.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

Proceedings on behalf of the Fund

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is party for the purposes of taking responsibility on behalf of the Fund for all or part of those proceedings.

The Fund was not a party to any such proceedings during the financial year.

Fees paid to and unit holdings of the Responsible Entity or related parties of the Responsible Entity

All fees paid and units held are disclosed in Note 12 "Related Party Transactions".

Units in the Fund issued during the year

The Fund did not issue any units during the year.

Value of Fund assets

The value of the group's total assets as at 30 June 2011 was \$173.6m. The value of the Group's assets is determined on the basis set out in note 1 of the financial statements.

Directors interest in the Fund

As at the date of this report:

- (a) there are no directors who have a relevant interest in units in the Fund;
- (b) no director has any rights or options over units in the Fund; and
- (c) there are no contracts to which a director is a party or under which a director is entitled to a benefit and that confer a right to call for or deliver interests in the Fund.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is enclosed.

Signed in accordance with a resolution of the Board of Directors:



Alan Fisher
Chairman

Melbourne
5 September 2012

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated 2011 \$	2010 \$
Property income			
- rental revenue		-	300,000
- recovery of outgoings		-	14,994
- property expenses		(5,255)	(1,961,934)
Net property income		(5,255)	(1,646,940)
Interest income – other persons		9,313,865	3,126,135
Other income – reversal of GST provision		827,648	-
Responsible entity's fee		(826,278)	(837,880)
Receivers fees		(164,319)	(540,180)
Legal fees		(3,999)	(2,314,800)
Corporate finance consultants		-	(299,734)
Liquidator fees of related MIS projects		-	(373,200)
Other expenses		(239,920)	(546,524)
Finance costs	3	(15,297,871)	(15,292,916)
Changes in fair value of investment property – realisation basis		-	(727,648)
Loss for the year		(6,396,129)	(19,453,687)
Other comprehensive income		-	-
Total comprehensive loss for the year		(6,396,129)	(19,453,687)

The accompanying notes form part of these financial statements.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011**

	Notes	Consolidated	
		2011	2010
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	4	172,529,727	156,963,379
Trade and other receivables	5	1,078,292	8,509,637
Total current assets		173,608,019	165,473,016
Total assets		173,608,019	165,473,016
LIABILITIES			
Current liabilities			
Trade and other payables	6	3,846,352	4,568,216
Interest bearing liabilities	7	165,739,321	150,486,325
Total current liabilities		169,585,673	155,054,541
Total liabilities		169,585,673	155,054,541
Net assets		4,022,346	10,418,475
EQUITY			
Settlement capital	8	54,935,759	54,935,759
Accumulated losses	9	(50,913,413)	(44,517,284)
Total equity		4,022,346	10,418,475

The accompanying notes form part of these financial statements.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011**

		Consolidated	
		2011	2010
	Notes	\$	\$
<hr/>			
Total equity at the beginning of the year		10,418,475	29,872,162
Loss for the year		(6,396,129)	(19,453,687)
Transactions with unit holders in their capacity as unit holders:			
- Distributions declared or paid		-	-
<hr/>			
Total equity at the end of the year		4,022,346	10,418,475
<hr/>			

The accompanying notes form part of these financial statements.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated 2011 \$	2010 \$
Cash flows from operating activities			
Receipts from customers		6,650	308,343
Payments to suppliers		(1,153,984)	(5,305,599)
Interest received	f	9,202,385	2,159,324
Finance costs paid		-	(756,137)
Net cash provided by / (used in) operating activities	14 (b)	8,055,051	(3,594,069)
Cash flows from investing activities			
Net proceeds from the sale of investment properties		7,536,176	164,624,253
Net cash provided by investing activities		7,536,176	164,624,253
Cash flows from financing activities			
Repayment of bank loans		(24,879)	(8,336,907)
Net cash used in financing activities		(24,879)	(8,336,907)
Net increase in cash and cash equivalents held		15,566,348	154,560,497
Cash and cash equivalents at the beginning of the year		156,963,379	2,402,882
Cash and cash equivalents at year end	14 (a)	172,529,727	156,963,379

The accompanying notes form part of these financial statements.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements are for the entity Timbercorp Primary Infrastructure Fund ('the Fund') and controlled entities ('the Group'). The Fund is a registered managed investment scheme (now delisted) established and domiciled in Australia. The Responsible Entity of the Fund is Align Funds Management Limited ('Align').

Basis of Preparation (Realisation)

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The following circumstances have caused the directors to conclude that the Fund will not continue as a going concern:

- The Group's sole tenant, Timbercorp, was placed into the voluntary administration on 23 April 2009, followed by liquidation on 29 June 2009. Accordingly, the Group has not received rental income beyond the quarter ended 30 June 2009, and subsequent receipt of any entitlement for rental income under the long-term lease agreements is considered doubtful;
- Since the administration of Timbercorp, the directors vigorously explored all available options that might ensure the continuation of the Group, however, on 15 September 2009, Receivers and Managers were appointed to each of the Fund's subsidiaries, which represent substantially all of the Group's assets.
- Due to continuing borrowing costs being incurred by the Group, and irrespective of the outcome of the legal entitlement of Timbercorp Growers to the net proceeds from the sale of the Group's properties, there will be insufficient funds to pay the liabilities due to the secured TPIF bond holders.

Accordingly, the financial statements have not been prepared on a going concern basis, but rather have been prepared on a realisation basis.

The financial statements therefore includes necessary adjustments relating to the recoverability and classification of recorded asset amounts and the amounts and classification of the liabilities on the basis the Fund will not continue as a going concern.

Compliance with IFRSs

The financial statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in this financial report.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Fund as at 30 June 2011 and the results of its subsidiaries for the year then ended.

A subsidiary is any entity over which the Fund has the power to control the financial and operating policies so as to obtain benefits from its activities.

All inter-entity balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Details of the controlled entities are contained in Note 10.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Revenue

Rental income from operating leases is recognised as income on a straight-line basis over the lease term.

Rental income received in advance is brought to account as unearned income.

Interest income is recognised in the income statement on a time basis using the effective interest rate method.

Distribution income is recognised when the right to receive a distribution has been established.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of the amount of goods and services tax.

(c) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Fund prior to the end of the financial year which are unpaid at year end. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

A liability is recognised for distributions declared or committed to which are unpaid at year end.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, net of unamortised transaction costs, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Investments in controlled entities

Investments in controlled entities in the parent entity are measured at cost less any impairment losses. The underlying net asset position of each controlled entity is considered when determining the recoverable amount of investments in controlled entities. The net asset position of each controlled entity is based on the fair values of underlying assets held by each controlled entity, and therefore does not include any costs to sell which may be incurred upon subsequent disposal of these assets.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financing Costs

Financing costs are recognised using the effective interest rate applicable to the financial liability.

(e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(f) Income tax

Under current income tax legislation, the Group is not liable for income tax provided its taxable income is fully distributed to unit holders.

(g) Critical judgments and significant accounting estimates

The preparation of financial statements requires the directors to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Critical judgments – fixed price contracts

As outlined in Note 15 Contingent Liabilities, capital works have been performed (by Timbercorp Asset Management Pty Ltd) on the Yungera and Solora South properties up to 30 June 2009 in accordance with fixed priced contracts. The directors, after giving due consideration to this matter, have concluded persuasive evidence exists that these capital works appropriately represent only a contingent liability to the Fund.

Critical judgments – classification of sale proceeds (2010)

The property sale proceeds of \$173 million (before related selling costs) are inclusive of \$9.3 million attributed to the sale of an interest in the 2010 crop, which is in lieu of rental income not received during the period of sale. Having regard to the substance of the transaction, the directors have determined that the \$173 million should be accounted for as the sale of the property in its entirety, notwithstanding various agreements attribute values to various categories for legal and other commercial reasons. This judgment only impacts the classification of sale proceeds, and has no bearing on the reported loss for the year, or net asset position at 30 June 2011.

(h) Accounting standards applicable but not yet adopted

No new standards, amendments or interpretations issued are expected to affect the Group.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

NOTE 2: FINANCIAL RISK MANAGEMENT

The Group's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Group is exposed to is market risk, credit risk and liquidity risk. The Responsible Entity is responsible for determining objectives and risk policies. The exposure to each of these risks, as well as the Group's policies and processes for managing these risks are described below.

(a) Market Risk

Market risk embodies the potential for both loss and gains and would normally include currency risk, interest rate risk and other price risk.

The Group has no exposure in relation to currency risk as it does not trade in foreign currencies.

The Group has limited short-term exposure to interest rate risk. Interest-bearing financial assets are limited to cash and cash equivalents which have variable interest rate terms. Interest-bearing financial liabilities include bonds and bank loans which have fixed interest rate terms as detailed in Note 13. These financial liabilities will be subject to interest rate risk at their various maturity dates in future financial years.

The Group has no exposure in relation to other price risk.

(b) Credit risk

Credit risk is the risk that a party to the financial instrument will cause a financial loss to the Group by failing to discharge an obligation. The Group is exposed to credit risk through the financial assets listed below. The table also details the maximum exposure to credit risk for each of the classes of financial instrument.

	Consolidated	
	2011	2010
	\$	\$
Cash at bank	172,529,727	156,963,379
Trade and other receivables	1,078,292	8,509,637
Maximum exposure to credit risk	<u>173,608,019</u>	<u>165,473,016</u>

The Group manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate rating.

Cash at bank is held with reputable organisations.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The Group monitors its exposure to liquidity risk by ensuring that on a daily basis there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due, including redemptions to unitholders. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasts and actual cash flows. This can involve adjusting the timing and amount of distributions paid, and consideration to the required levels of long-term capital.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

NOTE 2: FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The maturity of financial liabilities at reporting date are shown below, based on the contractual terms of each liability in place at reporting date. The amounts disclosed are based on undiscounted cash flows.

	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years	Total contractual cash flows	Carrying Amount liabilities
	\$	\$	\$	\$	\$	\$
Group: 2011						
Trade and other payables						
Non-interest bearing	<u>3,846,352</u>	-	-	-	<u>3,846,352</u>	<u>3,846,352</u>
Interest-bearing liabilities						
Fixed interest rate	<u>165,739,321</u>	-	-	-	<u>165,739,321</u>	<u>165,739,321</u>
Group: 2010						
Trade and other payables						
Non-interest bearing	<u>4,568,216</u>	-	-	-	<u>4,568,216</u>	<u>4,568,216</u>
Interest-bearing liabilities						
Fixed interest rate	<u>150,486,325</u>	-	-	-	<u>150,486,325</u>	<u>150,486,325</u>

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	Consolidated 2011	2010
		\$	\$
NOTE 3: EXPENSES			
Loss for the year includes the following specific expenses:			
Finance costs:			
- interest paid		15,297,871	14,610,257
- amortisation of capitalised borrowing costs		-	682,659
		<u>15,297,871</u>	<u>15,292,916</u>
Remuneration of the auditors for:			
- audit of the financial report		37,000	37,000
- review of the half-year financial report		18,000	18,000
- compliance plan audit		4,000	4,000
		<u>59,000</u>	<u>59,000</u>

NOTE 4: CASH AND CASH EQUIVALENTS

Cash at bank	<u>172,529,727</u>	<u>156,963,379</u>
--------------	--------------------	--------------------

The effective weighted average interest rate on cash is 5.68% (2010: 5.50%).

Substantially all of the cash at bank is held in trust accounts and cannot be used to settle liabilities of the Group until such time as the Supreme Court has made a determination in respect of grower rights.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	Consolidated 2011 \$	2010 \$
NOTE 5: RECEIVABLES			
CURRENT			
Trade receivables		493,379	500,029
Less impairment provision		(493,379)	(493,379)
Net trade receivables		-	6,650
Accrued interest income		1,078,292	966,811
Property sale proceeds receivable		-	7,536,176
		<u>1,078,292</u>	<u>8,509,637</u>

Trade and other receivables are non-interest bearing. The fair value of all receivables is not materially different from the carrying amount.

a) Ageing and impairment losses

The ageing of trade receivables for the group at the reporting date was:

	Gross 2011 \$	Impairment 2011 \$	Group Gross 2010 \$	Impairment 2010 \$
Not past due	-	-	-	-
Past due 0 – 30 days	-	-	-	-
Past due 31 – 60 days	-	-	-	-
Over 60 days	493,379	(493,379)	500,029	(493,379)
	<u>493,379</u>	<u>(493,379)</u>	<u>500,029</u>	<u>(493,379)</u>

The directors establish specific allowances for impairment when the recoverability of any receivable is doubtful. The allowance account for receivables is used to record impairment losses unless the entity is satisfied that there is no recovery of the amount possible, at which point it is written off directly against the amount owing.

b) Credit risk

The maximum credit exposure to credit risk for both the Group is the gross amount of all receivables.

NOTE 6: PAYABLES

CURRENT

Amounts payable to:

- the Responsible Entity	1,660,323	834,045
- the Property Manager	644,597	644,597
Sundry creditors and accruals	1,541,432	3,089,574
	<u>3,846,352</u>	<u>4,568,216</u>

Trade and other payables are non-interest bearing.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

		Consolidated	
		2011	2010
		\$	\$
<hr/>			
NOTE 7:	INTEREST-BEARING LIABILITIES		
CURRENT			
Secured liabilities			
Bonds	(a)	31,850,000	31,850,000
Bank loans	(b)	102,436,214	102,461,093
Accrued interest		31,153,107	15,875,232
Other loans		300,000	300,000
		<u>165,739,321</u>	<u>150,486,325</u>

The investment property (up to the date of sale), with a carrying value of \$173 million, was pledged as security.

(a) Bonds

The following TPIF Bonds were on issue during the financial year:

Bonds	Issue date	Face Value (\$)	Fixed Interest rate	Maturity date
Series 1	30 September 2005	10,100,000	9.50%	30 September 2012
Series 2	26 May 2006	11,750,000	9.00%	31 March 2013
Series 3	26 May 2006	10,000,000	8.65%	31 March 2013
		<u>31,850,000</u>		

The TPIF Bonds are secured by a fixed and floating charge over the assets of the Group.

The covenants within the TPIF Bond Trust Deed require liabilities, adjusted for cash, not to exceed 80% of all assets, adjusted for cash, calculated on a consolidated basis. The Group was in breach of this covenant at reporting date.

(b) Bank loans

The Group was in breach of covenants and previous negotiations with ANZ in respect of maintaining the finance facility were unsuccessful. Consequently, Receivers and Managers were appointed to the each of the subsidiaries on 16 September 2009.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated	
	2011	2010
	\$	\$
<hr/>		
NOTE 8: SETTLEMENT CAPITAL		
53,303,134 (2009: 53,303,134) fully paid ordinary units	<u>54,935,759</u>	<u>54,935,759</u>
Represented by:		
Fully paid ordinary units	56,472,418	56,472,418
Issue costs incurred	(1,483,832)	(1,483,832)
Equity buy-back costs	<u>(52,827)</u>	<u>(52,827)</u>
	<u>54,935,759</u>	<u>54,935,759</u>

Each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Fund. Units will not be redeemable, unless the Responsible Entity makes a redemption facility available or a withdrawal offer in the future, in accordance with the constitution.

Capital risk management

The Fund regards total equity as its capital. The objective of the Fund is to provide unit-holders with regular tax-advantaged income distributions over the life of the Fund through the acquisition, development and management of agricultural investment properties, whilst maintaining sufficient liquidity to safeguard their ability to continue as a going concern.

NOTE 9: ACCUMULATED LOSSES

Accumulated losses at the beginning of the financial year	(44,517,284)	(25,063,597)
Net loss for the year	<u>(6,396,129)</u>	<u>(19,453,687)</u>
Accumulated losses at the end of the financial year	<u>(50,913,413)</u>	<u>(44,517,284)</u>

NOTE 10: OTHER FINANCIAL ASSETS

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy note described in note 1(a).

Name of entity	Entity Type	Country of Incorporation	Equity Holding
Timbercorp Orchard Trust #2	Unit Trust	Australia	100%
Timbercorp Orchard Trust #3	Unit Trust	Australia	100%
Timbercorp Orchard Trust #5	Unit Trust	Australia	100%

NOTE 11: CAPITAL AND LEASING COMMITMENTS

Details of the Group's capital commitments are contained in Note 15 Contingent Liabilities.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated	
	2011	2010
	\$	\$

NOTE 12: RELATED PARTY TRANSACTIONS

Responsible Entity

The Responsible Entity of Timbercorp Primary Infrastructure Fund is Align Funds Management Limited.

Align receives a fee of 0.50% of the market value of the Group's assets per annum, calculated monthly at the end of each month and payable at the end of each half-year, subject to it receiving a minimum fee of \$155,837 each half year.

The Responsible Entity will, in addition to its remuneration, be reimbursed out of the Group for all out-of-pocket charges, expenses and outgoings reasonably and properly incurred by or on behalf of the Group in accordance with the constitution.

Property Manager

Timbercorp Asset Management Pty Limited ("TAM"), a wholly owned subsidiary of Timbercorp, was previously engaged to acquire, develop, lease, manage and dispose of the Group assets. TAM received a fee of 0.75% of the market value of the Group's assets per annum, at the end of each half-year, subject to it receiving a minimum fee of \$233,756.

When Timbercorp (and its wholly owned entities including TAM) was placed into voluntary administration, the role of Property Manager was performed by Align Asset Management Pty Ltd. Fees payable were consistent with fees previously paid to TAM and that role ceased following appointment of the Receivers and Managers in September 2009.

Align Asset Management Pty Ltd is a wholly owned subsidiary of Align Funds Management Limited.

Align Funds Management Ltd (Responsible Entity)

Management fees for the year incurred by the Group to the Responsible Entity

826,278	837,880
---------	---------

Aggregate amount payable to the Responsible Entity at reporting date

1,660,334	834,045
-----------	---------

Align Asset Management Pty Ltd (Property Manager)

Management fees for the year incurred by the Group to the Property Manager

-	237,937
---	---------

Aggregate amount payable to the Property Manager at reporting date

237,937	237,937
---------	---------

Timbercorp Asset Management Pty Ltd (former Property Manager)

Management fees for the year incurred by the Group to the Property Manager

-	-
---	---

Aggregate amount payable to the Property Manager at reporting date

406,660	406,660
---------	---------

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated	
	2011	2010
	\$	\$

NOTE 12: RELATED PARTY TRANSACTIONS (continued)

Key Management Personnel Disclosures

The names and positions held of key management personnel in office at any time during the financial year are:

Key Management Personnel	Position
Alan Fisher	Chairman
Sam Baillieu	Non-Executive Director
Trevor Moyle	Non-Executive Director
Andrew Ashbolt	Company Secretary

Key Management Personnel Compensation

The Responsible Entity and other related entities remunerate key management personnel. Payments made from the Group to the Responsible Entity and other related entities do not include any amounts attributable to the compensation of key management personnel.

Key Management Unit holdings

The number of units in the Fund held during the financial year by key management personnel are set out below.

Andrew Ashbolt

- Balance at the beginning of the year	38,605	38,605
- Additions	-	-
- Balance at the end of the year	38,605	38,605
% of units held	0.1%	0.1%

NOTE 13: SEGMENT REPORTING

The Group operates solely in the business of investment property management within Australia.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated	
	2011	2010
	\$	\$
<hr/>		
NOTE 14: CASH FLOW INFORMATION		
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash at bank	<u>172,529,727</u>	<u>156,963,379</u>
(b) Reconciliation of cash flow from operating activities with loss for the year		
Loss for the year	(6,396,129)	(19,453,687)
Non-cash flows in loss for the year		
Amortisation	-	682,659
Changes in fair value of investment property	-	727,648
Changes in assets and liabilities		
Increase in receivables	(104,830)	(6,650)
Increase in payables and accrued interest	<u>14,688,581</u>	<u>14,455,961</u>
Cash flows from operations	<u>8,055,051</u>	<u>(3,594,069)</u>

NOTE 15: CONTINGENT LIABILITIES

(a) Grower rights

The Supreme Court of Victoria ('Court') is yet to make a determination on what rights the growers have in relation to the proceeds of sale of the properties, and what value, if any, should be attributed to growers' rights to such proceeds.

The directors believe that the outcome of the legal proceedings could have major significance on the reported net asset position of the Group as at 30 June 2011. A liability for the growers' claim has not been recognised on the basis this represents a possible, rather than actual, obligation at the time of this report, whose outcome is dependent on a subsequent determination by the Court.

(b) Capital expenditure

The Group has \$5.6m remaining of a possible obligation relating to a fixed price development contract with Timbercorp Asset Management Pty Ltd ('TAM') for capital expenditure on the Yungera and Solara South properties. As at 30 June 2011, the directors estimate unclaimed capital works are to the value of \$5.0m. The directors believe it is unlikely TAM will complete the remaining \$0.6m of capital works under the contracts.

The specific terms of the fixed price contracts are such that payment is only required for capital works in the event the Fund is able to procure funds for the purpose of paying for these capital works. The directors believe the subsequent procurement of funds for the purpose of paying for these capital works is presently unlikely. The directors have also taken legal advice on this matter, and have concluded the Fund does not presently have a liability for the \$5.0m of capital works.

A liability could possibly exist in the future in the unlikely event the Fund is able to subsequently procure funds for the purpose of paying for these capital works or a compromise position is agreed with the TAM Liquidators, but this issue has not been finally determined.

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated	
	2011	2010
	\$	\$

NOTE 16: FUND DETAILS

The principal place of business of the Responsible Entity is

Level 33, 360 Collins Street
MELBOURNE VIC 3004

NOTE 17: EVENTS SUBSEQUENT TO REPORTING DATE

Other than matters outlined in the directors' report, there are no further matters requiring disclosure.

NOTE 18: EARNINGS PER UNIT (EPU)

Earnings per unit for (loss) / profit attributable to the unit holders of the Fund	2011 cents	2010 cents
Basic EPU	(11.98)	(36.44)
Diluted EPU	(11.98)	(36.44)

The following information reflects the income and securities numbers used in the calculations of the basic and diluted EPU:

	2011 Number of units	2010 Number of units
Weighted average number of units used in calculating basic and diluted EPU	<u>53,386,865</u>	<u>53,386,865</u>
Earnings used in calculating basic and diluted EPU	(6,396,129)	(19,453,687)

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

NOTE 19: PARENT ENTITY DISCLOSURE

The following details information related to the parent entity at 30 June 2011. The information presented here has been prepared using the consistent accounting policies as set out in Note 1.

	Parent Entity	
	2011	2010
	\$	\$
Current assets	204,532	196,660
Non-current assets	43,766,697	46,609,027
Total assets	43,971,229	46,805,687
Current liabilities	39,948,883	36,387,212
Non-current liabilities	-	-
Total liabilities	39,948,883	36,387,212
Net assets	4,022,346	10,418,475
Issued capital	54,935,759	54,935,759
Retained losses	(50,913,413)	(44,517,284)
Total equity	4,022,346	10,418,475
Loss for the year	6,396,129	19,453,687
Total comprehensive loss for the year	6,396,129	19,453,687

**TIMBERCORP PRIMARY INFRASTRUCTURE FUND
AND CONTROLLED ENTITIES
ARSN 116 024 830**

DIRECTORS' DECLARATION

The directors of the Responsible Entity, Align Funds Management Limited, declare that:

- (a) the financial statements, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and notes for the financial year ended 30 June 2010 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date;
- (b) in the directors' opinion, the Fund is not a going concern and the financial statements have therefore been prepared on a realisation basis; and
- (c) the directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors of the Responsible Entity by:



Alan Fisher
Chairman

Melbourne

5 September 2012

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000
GPO Box 4736
Melbourne Victoria 3001
T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration
To the Directors of Timbercorp Primary Infrastructure Fund as Responsible Entity for Timbercorp Primary Infrastructure Fund

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Timbercorp Primary Infrastructure Fund for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Michael Climpson
Partner - Audit & Assurance

Melbourne, 5 September 2012

Grant Thornton Audit Pty Ltd ABN 91 130 913 594 ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation



The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000
GPO Box 4736
Melbourne Victoria 3001
T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Report To the Unitholders of Timbercorp Primary Infrastructure Fund

We have audited the accompanying financial report of Timbercorp Primary Infrastructure Fund (the "Fund"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Align Funds Management Limited, the Responsible Entity, are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

Grant Thornton Audit Pty Ltd ABN 91 130 913 584 ACN 130 913 584
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation



In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of Timbercorp Primary Infrastructure Fund is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Significant contingent Liabilities

Without qualification to our opinion, we draw attention to Note 15 of the financial statements, 'Contingent Liabilities'. Legal proceedings pertaining to growers' rights represent a significant contingent liability which could have a material negative impact on the net position reported at 30 June 2011.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Michael Climpson

Michael Climpson
Partner - Audit & Assurance

Melbourne, 5 September 2012