

24 March 2010

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Dear Investor

GREAT SOUTHERN 2008 FORESTRY LAND TRUST UPDATE

Background

The purpose of this letter is to provide you with a further update on the Great Southern 2008 Forestry Land Trust (Land Trust) following our communication in October 2009.

Property Leases

The Land Trust leases all properties to Great Southern Managers Australia Limited (GSMAL) (Receivers and Managers Appointed) (In Liquidation), for use in the 2008 Renewable Fibre Project (Tree Project).

The Tree Project is an entirely separate business to the Land Trust. McGrathNicol, the Receivers of GSMAL, have now concluded their assessment of the Tree Project and have subsequently commenced the process of winding it up.

Following notification of the wind-up, Rural Funds Management (RFM) as Responsible Entity for the Land Trust, has begun the process of terminating the leases between the Land Trust and GSMAL.

The first step in this process is to issue default notices to GSMAL. These notices were issued on 5 March 2010. GSMAL is required to rectify defaults relating to the leases within 30 days. RFM expects that GSMAL will because of its liquidation not be in a position to rectify the defaults and on that basis RFM expects to complete termination of the leases once the notice period expires on or about 10 April 2010.

RFM has commenced termination of the leases to allow the properties to be dealt with on an unencumbered basis. The leases generally contained a rental provision that lease payments were only received at harvest time. As a significant number of properties were not planted trees, there is limited opportunity for the Land Trust to receive rental payments. In addition, any properties that are sold will (in RFM's experience) generally attract a higher price if not encumbered by a lease, particularly a lease with no rental payment.

Stamp duty and title transfer

At the last update, RFM was awaiting stamp duty assessment in several states and was seeking to have duty assessed on the lower encumbered value as opposed to the unencumbered value.

The stamp duty assessment has now been completed by the respective state revenue offices.

The Land Trust has paid the assessment notices and we expect title to be registered on all properties within the next month. RFM has lodged objections where the stamp duty has been levied on the higher, unencumbered values.

Independent forester report

RFM previously advised that we intended to appoint an independent forestry consultant to review each property within the Land Trust and provide recommendations as to their suitability to continue as silvicultural operations. Van Diemen Forestry Consultants Pty Ltd (VDFC) who were engaged in December 2009, have now inspected each property individually, and provided a report to RFM with recommendations.

The review on the ongoing viability of the properties included the likely costs of the various options available, including:

- Calculation of cost of coppice treatment on relevant properties where coppice has developed.
- Calculation of cost of planting with new genetic tree stock in the areas that have been ripped and mounded reading for spraying and planting. The calculations considered the value of works already completed on the sites.
- The value of the sunk costs for the various property operations already carried out by the tenant (GSMAL) was calculated for each property.
- Site evaluation, including planning, marking, site preparation, pre-plant spraying, roading (including firebreaks) GPS data collection and mapping was carried out.

The broad conclusions drawn from the report and modelling are:

- the capital expenditure requirement to plant trees, manage, maintain, harvest, process and market a forestry operation within the Land Trust would not be viable;
- the market for forestry properties is shallow given the collapse of Great Southern and Timbercorp;
- there may be interest from other reputable forestry companies to lease or purchase some but not all of the properties;
- demand for leasing agricultural properties suitable for grazing or cropping is growing;
- and
- re-development of selected properties from forestry back to agriculture may significantly increase the value of the properties over and above re-development costs.

RFM has concluded from the report that the continuation of a commercial forestry business within the Land Trust is not an economically viable option for investors in the Trust.

Progress to date

RFM has been actively investigating all options to manage the assets of the Land Trust.

Indicative sale values have been sought which has led to third party offers to purchase four properties in South Australia and Western Australia. These offers were well below our assessment of their value and have been rejected.

Given the shallow market for sales, agents in each state have been briefed on each property and instructed to seek out interested parties to lease the properties. In addition, RFM has been investigating the possibility of harvesting the coppice regrowth for sale to a renewable energy company. This renewable energy company is currently evaluating the use of coppice regrowth but is unlikely to be able to commit to any large contracts in the short term.

RFM is currently seeking quotes from local earthmoving contractors to remove the coppice regrowth and stumps so the land can be returned to grazing or cropping. It is likely that a small area will be treated in coming months to ensure clearing is effective and cost estimates are correct. This will allow an economic assessment of whether RFM is able to significantly increase the value of the properties by converting a portion of the properties from forestry to grazing or cropping.

Going forward

In order to provide the best options for the Land Trust investors, each property is being assessed individually. RFM will make arrangements to sell or lease each property in the first instance. Where RFM is unable to achieve suitable values, RFM will consider the conversion of any suitable, remaining property to grazing or cropping with a view to then on selling the property at an appropriate time.

Given the current depressed market for forestry properties, RFM is of the view that an immediate sale of the properties and wind up of the Land Trust would result in significant losses for the investors.

RFM is of the view the best current option is to continue to own and operate/lease the majority of the assets, RFM is also evaluating the benefits of merging the Land Trust with another RFM managed Fund.

The benefits of any merger for the Land Trust investors include decreased management and overhead costs due to economies of scale, and the potential for the payment of quarterly distributions to investors. This option is in the very early stages of evaluation and investor approval would be sought via a unit holder meeting in the event that this option was pursued further.

If you have any queries in relation to the Land Trust, please contact RFM Investor Services on 1800 026 665 or via email investorservices@ruralfunds.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "Nathan Payne".

Nathan Payne
Acquisitions and Business Support Manager