



Forest Partnership Report

18 March 2016

Hello,

This has been another positive year for our forest estate.

Although the spring forecasts for the East Coast were for a dry summer due to the El Nino weather pattern, we have actually received good summer rainfall and all of our forests are in good heart as a result.

Valuations

You will be pleased to see the valuation of your forest asset shows an average increase of 17.8% over the 2015 valuation. A copy of the valuation is enclosed.

The forecast net stumpage at harvest for the forest, based on the increased values can be found on the last page of the valuation. From this you can calculate your net stumpage relative to your percentage of partnership interest/shareholding.

Carbon Market – Emissions Trading Scheme

As at today, the price of NZUs has climbed to \$11 and will hopefully continue to move north. We believe many emitters have been holding back on purchasing units until there was clarity around the ETS review and whether the 2:1 subsidy would be removed or not.

On 17th March our climate change minister, Paula Bennett said that "It was a matter of when not if" the two for one subsidy for carbon emitters would be removed. This had an immediate effect on NZU prices which climbed to \$11 by the end of the days' trading.

The NZ Emissions Trading Scheme is currently under review and we await the outcome, but based on the Ministers' comments, we are optimistic it will be positive for forestry. We know NZ is presently in a net deforestation situation and if the ETS is to remain an effective

carbon management tool, foresters need a clear signal from the government via the ETS to give them the confidence to start planting again.

The NZU sales strategy we have adopted to fund the operating expenses of the forests enables us to take advantage of the rising NZU price. We are selling smaller parcels of units on an as required basis.

Log Markets

Many commodities on the world markets have had a rough time over the last few years. Who would have thought oil would trade down to \$28USD.

Interestingly, while we have had two significant dips in log prices over the past twelve months, log prices have held up reasonably well. This is largely due to cheaper international freight rates and exchange rate gains against the USD rather than demand.



Inventory held at the Chinese ports has been lower than previous years over the Chinese New Year period. As a result the log price drops we generally see at this time have not happened. This has also helped to keep the prices up.

It is heartening to see at last a premium return to the market for pruned logs with P40 grade logs achieving \$200 per JAS at some ports. The differential between the pruned price and A grade price is now high enough to make the owners of younger forests reconsider whether to prune or not to prune.

Now that we have more forests approaching harvest, it is important we have a better understanding of the markets we are selling our logs into. I have the opportunity to participate in a trip to look at the Chinese and other Asian markets, to help get a better understanding of them as well as the scale on which they operate.

This trip is planned for May.

Harvest age

In my midyear report in November I indicated that we will be commencing harvest of our forests at age 26 rather than the original forecast of age 28. We arrived at this decision after commissioning Jeff Schnell from Olsens to produce a cost benefit analysis as to the optimum time for harvest of our 1991 planted forests and his financial models shows that to be around age 26 years.

The reality is, the harvest of each individual forest will be spread over two or three years because in most cases, it is realistic to put one harvest crew in each forest. By planning harvest at an estate level, this creates economy of scale benefits which will benefit the forest owners. By smoothing the harvest volume, the partners will also derive the benefit of averaging log sale prices and tax benefits. (See separate section on tax)

Roading in the forests prior to harvest requires planning now as there is a significant economic advantage in constructing roads in the dry summer months to prepare for the clearfell operation. It is widely accepted that once the roads are formed, they require time to settle before the harvest traffic starts using them. This leads to more economical roading costs and reduced maintenance during harvest.

For forests planted in 1991/92 the proposal is to begin roading construction during summer of 2016/2017, further roading will be carried out in summer of 2017/2018 and main harvest will begin (when the forest is 26 years old), in the spring (September/October) of 2018.

Given the scale of the activity planned in the older forests we feel it is important partners are fully informed of future harvest plans for their forest. We are therefore having separate AGMs this year for Hawkes Bay forests planted in 1991/92 to outline the plans over the next few years.

Tax on Harvest Income

It is worth noting that under Sections E11 and E12 of the Income Tax Act, the income from forestry may be spread for tax purposes, at the option of the taxpayer, over the income year in which the trees are harvested, and the preceding three income years – i.e. a total of four years. This can be advantageous for example where the tax on the income would otherwise result in a change of tax brackets, or where for whatever reason one of the preceding years has significantly less income.

By spreading the harvest over more than one income year, the effect is to extend this four year period – For example, if harvesting was to span three tax years, there are seven years in which the tree income can be allocated for tax purposes, which depending upon each individual's circumstances, could result in quite substantial tax savings.

Harvesting at Waikare Forest

After a slow winter, good progress has been made over the summer months with the harvest of Waikare Forest – the first of the Roger Dickie estate to be harvested. Approximately 27% of the forest is now harvested and over 63% of the roads established.

We have been harvesting our Waikare Forest in South Taranaki for 13 months and it is interesting to note that the average gross revenue per tonne is running at 19.7% ahead of the projection of 16 months ago, forecast by FMNZ based on last 12 quarter running averages. This is an excellent result considering that over that period we have gone through two significant log market price dips.



Managed Investment Scheme (MIS) Licensing

As previously advised, as administrator/manager of the forest partnerships, Roger Dickie (N.Z.) Ltd is required to obtain an MIS license by 1st December 2016. We are working on the application which is proving to be quite time consuming given the level of detail required by the Financial Markets Authority.

One of the changes we need to make is to the partnership Deeds of Participation (DOP) to ensure they are compliant with the Act. We have engaged Kensington Swan Lawyers to prepare a revised DOP. They advise that there are only minor changes required, and they expect to have the amended document completed shortly.

Once completed, the amended DOP will be circulated to the partners for adoption.

We continue to be aware of compliance costs and the need to manage these costs carefully.

Change of name of Statutory Supervisor

As advised in my mid-year report, Complectus Limited acquired the shares of our Statutory Supervisor, Foundation Corporate Trust. Complectus also owns Covenant Trustee Services Limited which is a supervisor licenced by the Financial Markets Authority.

The Boards of Foundation and Covenant have now proceeded to amalgamate both companies into one called Covenant Trustee Services Ltd. The amalgamation took effect on

March 1st this year and effectively is a name change only, as it will have no effect on our dealings with the Statutory Supervisor.

Partner IDs

Many of you will already have experienced the increased identification requirements when dealing with banks or other financial institutions. This is due to the Anti Money Laundering and Counter Financing of Terrorism Act 2009 Act.

We are now required to have formal identification, physical address and bank account details for all of our investors. A photo ID (passport or drivers licence) and a copy of a utilities bill confirming your residential address are needed to meet these requirements.

We will be working our way through all the forests and requesting this information from all investors and would ask for your cooperation in providing it to us. Unless we hold this information on file, we are unable to make distributions of harvest revenue or proceeds of the sale of partnership interests or shares.

Insurance

The insurance investment fund currently sits at \$1,960,759 in total. The partnerships will each pay their insurance premiums out of their individual funds.

Secondary Market

Richard Bourne tells me he has strong interest in secondary market shares available for sale. The enquiries are from existing partners, other outside parties and strong interest from overseas buyers for partnership interests in forests approaching harvest.

Richard has had an excellent clearance of partnership interests offered for sale in the past few months so if you were considering selling, it may be a good time to discuss your options with him.

If you are interested in securing an investment in another forest partnership or farm, please contact Richard Bourne in our office or email richardb@rogerdickie.co.nz

Regards



Roger Dickie



Glenlea

Forest Partnership

Forest Managers Report - March 2016

Meteorologists tell us New Zealand weather is experiencing a strong El Niño phase this summer. This generally means stronger or more frequent winds from the west which cause a high drought risk in the east and more rain than normal in the west. The conditions on the ground however, have been quite different. The Gisborne region generally remains green, Hawkes Bay is only now starting to get dry and the Taranaki/Whanganui region has received little rain all summer. While this has meant we may well have over prepared for the fire season, the conditions have been ideal for tree growth and health and the forests reflect this.

Forest health is generally excellent. Normally at this time of year we are starting to see the trees that have been affected by red needle cast (RNC), start to make new foliage growth however, this year there is little sign of this and most trees are a uniform healthy green showing none of the defoliation associated with RNC.

The tracks are in excellent order now the annual track maintenance has been completed.

Next summer, with the consent of the partners, we plan to harvest the 2.7 hectare stand of older trees at Glenlea. This stand is now populated by trees with large piece sizes and apart from the log prices, some of the motivation to harvest is due to the size of the trees and a concern that the logs will be over spec which limits

their marketability. Updated revenue forecasts for the harvest will be presented at the AGM.

The harvest of the 1993 plantings is getting closer and we need to gather the information necessary to commence our harvest planning. As a first step, we have made allowance in the budget to carry out a Lidar survey of the forest. This will provide us with precise three dimensional imagery which we will use in our harvest planning to design roads, landings and skid sites. This will be done in conjunction with other forests of a similar age class to take advantage of economy of scale benefits and keep the cost down.

The weed control budget of \$500 has not been spent and we have carried it forward to the 2017 budget year. We have noticed that the blackberry is starting to come away again after being in decline for the last couple of years. This is evident in many of the forests we manage and wonder if there may be some correlation between the lack of RNC in the forest this year and the blackberry growth. The needles that are cast from RNC form a thick layer on the forest floor that the blackberry may struggle to penetrate.

Possum control remains under the auspices of the Animal Health Board (AHB). There is no sign of pest damage in the forest.

The accommodation quarters have recently had some minor repairs and maintenance carried out to replace broken or worn hardware and ensure everything operates smoothly. While the tracking maintenance was being carried out we took the op-

portunity to fill in the rubbish pit and dig a new one further away from the buildings. The weeds have been sprayed around the carpark and buildings, there is plenty of firewood to hand and we are prepared for the winter.

Over the past months, NZUs have risen in value to over \$10 per unit and many commentators believe they will continue to climb in value. The outcome of the ETS review may have some influence on this, particularly if the 2:1 subsidy available for emitters is removed. At \$10 plus, we are starting to see a few more of our private clients looking to monetise their units however, most are waiting for the outcome of the ETS review and to see if the price may climb higher.

As at the end of February, Glenlea Forest held 81,693 NZUs in their NZEUR account. These were made up of 63,264 liability free units, 180 pre 1990 units and 18,249 non liability free NZUs. We sold 2500 NZUs in October for \$6.75, less our commission of 5c per unit, to fund operating expenses.

We have budgeted to de-register from the ETS at the end of the year. The end of the second commitment period is 2017 and if we remain in the ETS, will need to once again, carry out field measurement approach plotting (FMA) to generate site specific carbon sequestration tables for the forest. There is considerable expense involved in carrying out the FMA inventory and given that the forest is rapidly approaching harvest and the NZUs allocated will need to be surrendered, the cost of the FMA plotting cannot be justified. The pre 1990 and liability free NZUs are not surrendered or affected by deregistration.

The Forest Growers Levy Trust (FGLT) was established in 2013 to manage the proceeds of the newly introduced levy on plantation timber products. The trust is responsible for the distribution of the levy collected (\$7.62m for 2015), into research, biosecurity, safety, transport, fire prevention and forest industry promotion and advocacy. Each year FGLT trustees review the work programme, confirm the budget for the year and set the levy rate. The levy is presently 27c per tonne.

The work programme of \$7.632m approved for 2016 includes:

- \$4.478m for forest research. The focus is on sustainable intensification of radiata forests or “growing more timber on the same area of land without any harm to the environment.” Other research projects include diverse species, Phytophthora sciences and fire research.
- Forest health and bio-security \$1.007m. Includes the forest health surveillance scheme \$800,000. The scheme aims to detect new incursions before they can establish in our plantations.
- \$585,000 to the Forest Industry Safety Council established in 2015, co-funded by ACC and Worksafe.
- Transportation \$277,000 and includes road safety and state highway analysis
- Industry promotion including NZ Wood promotions \$400,000
- Environment \$272,000 which includes steepland harvesting research

The levy seems to be working well and means that all forest owners, come harvest time, make a contribution to industry good initiatives. Prior to the intro-

duction of the levy, much of the cost of these initiatives was borne by only some forest owners, even though all forest owners received the benefit of these activities.

Last March we reported on steps being taken to formalise the Hawkes Bay Forest Group (HBFG) to enable it to operate more effectively in the present environment. Although the group has been in existence since 2002, group members are time constrained with their primary roles and the group identified the need to introduce a membership fee that could be used to fund a part time dedicated role to assist the group meet their core objectives.

Over the past year HBFG become an incorporated society and a part time CEO has been appointed. The executive Chair is – Brett Gilmore (Chairman), Steve Bell (Vice Chair) and Keith Dolman (CEO) the HBFG members are:

Forest Management NZ Ltd, Rayonier New Zealand, Pan Pac Forest Products, PF Olsen Ltd, Grandy Lake Forest Ltd, NZ Forest Managers Ltd, Forest Enterprises, Hawkes Bay Regional Council.

The Group's objectives are:

- Promote a positive industry image to the public
- Promote the industry as an employment option to young and local workers
 - Establish communication with local schools
 - Provide industry training information
- Advocate with regulatory authorities
 - Proactive industry image building

- Coordinate submissions on regulatory changes
- Develop a drug and Alcohol register policy
- Continue to provide a forum for forest managers in Hawke's Bay to meet to discuss issues of common interest
- Establish relationships with other wood councils to enable shared learning

The Napier Gisborne Rail Group (NGRG) and Hawkes Bay Regional Council (HBRC) continue to work towards the resumption of a rail service on the Napier Gisborne rail line. HBRC are in negotiation with Kiwirail over the use of the line and are now working to a deadline of the end of March.

It is the intention that HBRC lease the line and engage Kiwirail to provide a service on the line. Kiwirail have provided a number of service options for consideration and these are presently being worked through. While it is the intention of HBRC and NGRG that logs would be the major commodity freighted on the line, Kiwirail are yet to deal with other freight and tourism options proposed for the line.

We understand HBRC aim to get log trains running from Wairoa to Napier Port by the October Local Body Elections.

The Budget for the 2016 year has been set at \$24,000 which all members contribute to. This allows the CEO to advance the objectives of the group for the good of the industry within the Hawkes Bay region.

The Health and Safety at Work Act 2015 and Regulations comes into effect on 4th April this year. The new legislation changes the focus from monitoring and recording health and safety incidents to actively identifying and managing risks to keep everyone safe by avoiding workplace incidents.

It also introduces a new legal concept of a Person Conducting a Business or Undertaking (PCBU) who has the primary responsibility for ensuring the health and safety of workers. While a PCBU is generally a business rather than an individual, officers and directors of the business can now be held liable and fined for health and safety breaches if they have not complied with their due diligence responsibilities by ensuring the safety of all who may be affected by their business. It is therefore important that everyone is a stakeholder in the management of health and safety.

Due diligence "is not done by merely hoping others would or could do what they were told, but also ensuring they have the skills to execute the job they are required to do and then ensuring compliance with that in accordance with best practice. Compliance requires a process of review and auditing, both formal and random, in order to ensure that the safe standards established are in fact being adhered to and under ongoing review."

The legislation has major ramifications for the forest industry and the way in which health and safety is managed. At FMNZ we take health and safety seriously and have employed a full time staff member to manage our policy and procedures to ensure ongoing compliance with the regulations. In addition, we recently rolled out our updated Health and Safety Policy and Procedures and have engaged an independent auditor to review these documents to ensure they are fit for purpose and enable us to continue to maintain a safe working environment.



Steve Bell
Forest Manager

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18 March 2016

Silks Audit Chartered Accountants
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Glenlea Forest Tree crop valuation

As requested, we have assessed the fair value of the tree crop assets at Glenlea forest owned by Glenlea Forest Partnership. The purpose of this valuation is for reporting in the owner's annual accounts. This valuation of the tree crop meets the NZ IAS 41 accounting standard.

The tree crop market value is estimated as at 29 February 2016 at:

\$4,807,000 plus GST (if any)

The current productive net stocked area is estimated at 311.4 hectares.

This value estimate excludes the value of the land and the improvements thereon, other than the trees. The value estimate does not include the contingent tax liability on the income arising from the sale of the trees, or the logs at maturity. Also excluded are costs and revenues associated with subsequent crops, and any value from the costs and revenues arising from the option to join the Emissions Trading Scheme.

Valuation methodology

The market value of the tree crop is assessed by discounting a prospective purchaser's future costs and revenues at a discount rate of 6.5%. The discount rate is based on analyses of recent transactions in New Zealand, and therefore reflects the recent market for forests. Future costs and revenues are expressed in real (2016) NZ dollar terms, exclusive of GST.

The methodology adopted is described in the New Zealand Institute of Forestry (NZIF) Forest Valuation Standards (May 1999). The valuation report presented here is a brief outline of the method adopted and the assumptions made. It does not comply with all disclosure requirements contained in these standards. The reader is referred to the full valuation report entitled "Roger Dickie (NZ) Ltd – Tree Crop Valuation – March 2016" for a complete description of the methodology and assumptions.

Key inputs

Net stocked areas and forest condition are based on current best estimates as provided by the forest manager, Forest Management NZ Ltd (FMNZ). PF Olsen inspected a selection of forests and found that the forest information provided by FMNZ gave a fair representation of the tree crop growing in these forests.

Future yields are projected assuming current best practice management. Projected yields are based on measured starting points where data allows. Measurement data has been supplied by FMNZ. These data have been collected using industry standard methods and protocols.

Future operational costs are based on current industry standards, and have been benchmarked against contract rates prevalent over the past year. Log prices are based on the average of the most recent three years to February 2016, as achieved at the ports in Gisborne, Napier and Wellington. No real price increase is assumed.

Tree crop value change analysis

As part of this valuation, we have examined the impact of changes in the forest description and valuation assumptions used to assess the tree crop value relative to the value estimated last year. This is accomplished by calculating the marginal contribution to the total change in tree crop value from updating each of the key factors in sequence.

Table 1: Tree crop value changes since last year

Change item	Tree Crop Value (000's)
Tree crop value last year	4,119
Update area	4,119
Advance date one year	4,547
Update yields	4,547
Update costs	4,474
Update log prices	4,659
Update discount rate	4,807
Tree crop value this year	4,807

Area changes, if any, are mainly the result of remapping the stocked area during the year.

Adding one year to the valuation date adds physical growth, and moves the forest one year closer to maturity.

Yield changes, if any, are the result of new measurement data collected during the past year.

The costs for tending, harvest road construction and cartage have all risen this year. Changes to tending costs will only impact on forests with tending operations remaining. The harvest-related costs of road construction and cartage have increased over the past year, as the costs of labour and capital have gone up. In addition, demand for harvesting services has increased.

Prices for pruned radiata logs have increased this year, while prices for other grades have dropped slightly, or remained relatively flat.

We have reduced the discount rate applied in this valuation. Evidence from recent forest transactions suggest that purchasers are applying lower discount rates in deriving tree crop values.

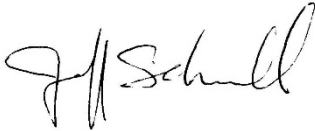
Harvest revenue

Based on the assumptions adopted for the purpose of this valuation, the owner of Glenlea forest is projected to receive a total net stumpage revenue of approximately \$ 8,103,000 in year 2021.

This projected stumpage revenue is expressed in 2016 NZ dollar terms, and based on the projected yields, costs and log prices assumed in this valuation. The harvest year is based on a weighted average date of maturity for the forest. Harvest operations may commence sooner than, and last beyond, the year shown above.

Yours sincerely

PF OLSEN LIMITED



JEFF SCHNELL

Registered Forestry Consultant (NZIF)

Disclaimer

This valuation was commissioned by Roger Dickie (NZ) Ltd for the purpose of reporting in the individual partnership, or owner, accounts. The valuation is not suitable for sale and purchase.

The tree crop values calculated within this report are based on our assessment of current costs and future revenues. This assessment of costs and revenues is not a promise or guarantee by PF Olsen Limited that these will be realised. No promise or warranty is given pertaining to the accuracy or completeness of information supplied by Roger Dickie (NZ) Ltd, Forest Management NZ Ltd, or by third parties, except to the extent that this has been validated by PF Olsen Limited.

This report is only for use by the entity that commissioned it and solely for the purposes stated above. PF Olsen Limited, and its employees, shall have no liability to any other person or entity in respect of this report, or for its use other than for the stated purpose. PF Olsen Limited and its employees accept no liability for indirect or consequential losses or damages arising from the use of this report under any circumstances.

PF Olsen Limited is an independent forestry management and consulting company. Our company relationship with Roger Dickie (NZ) Ltd is one of providing forestry services and advice on a fee and re-imbursement of costs basis. The owners or employees of PF Olsen Limited have no interest in, or relationship with Roger Dickie (NZ) Ltd, Forest Management NZ Ltd, or the Partnership, apart from that listed above.

Glenlea Forest Partnership
Financial Statements
for the Year Ended 29 February 2016

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Glenlea Forest Partnership

Statement of Total Profit/Loss and Comprehensive Income For the Year Ended 29 February 2016

	<u><i>Feb 2016</i></u>	<u><i>Feb 2015</i></u>	<u><i>Budget</i></u>
	\$	\$	\$
<u>Forest Expenses</u>			
Fire Control	279	205	300
Management & Supervision Fees	6,839	8,394	8,040
	7,119	8,599	8,340
<u>Operating Expenses</u>			
Accommodation Complex Expenses	419	502	705
Accountancy Fees	2,675	2,705	2,675
Administration	4,150	3,917	4,200
Audit Fees	1,575	1,575	1,595
Bank Fees	82	112	150
Depreciation for Period	1,379	1,390	1,379
Emission Trading Scheme	404	1,769	300
Legal Expenses	17	17	600
Meeting Costs	284	272	300
Repairs & Maintenance - Tracks & Dams	2,007	-	2,500
Statutory Supervisor	1,325	1,325	1,325
Subscriptions - Forest Health, Research, Kyoto	135	77	80
Sundry Expenses	302	256	2,000
Valuation - Forest	392	225	250
Weed & Pest Control	-	667	500
	15,146	14,810	18,559
<u>Standing Charges</u>			
Insurance - Buildings	251	277	300
Insurance - Public Liability	416	401	-
Insurance - Plantations	11,094	10,670	11,280
Rates	5,650	5,341	5,601
	17,411	16,690	17,181
<u>Total Expenses</u>	39,676	40,099	44,080
<u>Less Expenses Recovered</u>			
Interest Received	2,555	1,382	240
Carbon Credit Sales (Net)	25,375	1,834	-
Accommodation Rental	680	-	-
	28,610	3,215	240
<u>Loss for Tax Purposes</u>	(11,066)	(36,883)	(43,840)
Plantation Revaluation Increase (Decrease)	688,000	148,000	-
<u>Net Surplus/(Deficit)for Year</u>	676,934	111,117	(43,840)
Comprehensive Income	-	-	-
<u>Total Comprehensive Income</u>	\$676,934	\$111,117	(\$43,840)

Note: This Statement must be read in conjunction with the accompanying Notes.

Glenlea Forest Partnership
Statement of Changes in Equity
For the Year Ended 29 February 2016

	<u>Note</u>	<i>Capital Accounts</i>	<i>Retained Earnings</i>	<u>2016 Total</u>
Equity as at 1 March 2015		1,812,898	2,572,450	4,385,348
Total Comprehensive Income		0	676,934	676,934
Total Contributions From Partners		0	-	0
Total Transactions with Owners		0	-	0
Equity as at 29 February 2016		<u>1,812,897</u>	<u>3,249,384</u>	<u>5,062,281</u>

	<i>Capital Accounts</i>	<i>Retained Earnings</i>	<u>2015 Total</u>
Equity as at 1 March 2014	1,789,138	2,461,333	4,250,471
Total Comprehensive Income	0	111,117	111,117
Total Contributions From Partners	23,760	-	23,760
Total Transactions with Owners	23,760	-	23,760
Equity as at 28 February 2015	<u>1,812,898</u>	<u>2,572,450</u>	<u>4,385,348</u>

Note: This Statement must be read in conjunction with the accompanying Notes .

Glenlea Forest Partnership

Statement of Financial Position As at 29 February 2016

	<u>Note</u>	<u>Feb 2016</u> \$	<u>Feb 2015</u> \$
<u>Current Assets</u>			
Cash and Cash Equivalents	4	40,368	48,969
Goods & Services Tax		<u>2,149</u>	<u>2,401</u>
		42,517	51,370
<u>Non Current Assets</u>			
<u>Plantations</u>	5		
Plantation Value		4,119,000	3,971,000
Revaluation for Year		<u>688,000</u>	<u>148,000</u>
	6	4,807,000	4,119,000
<u>Property, Plant and Equipment</u>	7		
Land		203,367	203,367
Land Improvements		1,929	2,078
Buildings & Furniture		<u>8,303</u>	<u>9,533</u>
		213,599	214,978
<u>Total Assets</u>		<u>5,063,116</u>	<u>4,385,348</u>
<u>Less Liabilities</u>			
<u>Current Liabilities</u>			
Accounts Payable		835	-
<u>Total Net Assets</u>		<u>\$5,062,282</u>	<u>\$4,385,348</u>
Represented by:			
<u>Equity</u>			
Capital Contributions per Schedule		1,812,898	1,812,898
Retained Earnings		<u>3,249,384</u>	<u>2,572,450</u>
		<u>\$5,062,282</u>	<u>\$4,385,348</u>

_____ Partner _____ Partner

Note: This Statement must be read in conjunction with the accompanying Notes .

Glenlea Forest Partnership

Cashflow Statement For the Year Ended 29 February 2016

	<u>Note</u>	<u>Feb 2016</u> \$	<u>Feb 2015</u> \$
<u>Cash Flows from Operating Activities</u>			
Cash was provided from:			
Interest Received		2,555	1,382
Carbon Credit Sales (Net)		25,375	1,834
Operating Income		680	-
Goods & Services Tax		<u>252</u>	<u>-</u>
		28,861	3,215
Cash was applied to:			
Operating Expenses		37,462	38,709
Goods & Services Tax		<u>-</u>	<u>677</u>
		37,462	39,386
Net Cash inflow (outflow) from operating activities	8	<u>(8,601)</u>	<u>(36,171)</u>
<u>Cash Flows from Financing Activities</u>			
Cash was provided from:			
Calls on Participatory Securities		<u>-</u>	<u>23,760</u>
Net cash inflow (outflow) from financing activities	8	<u>-</u>	<u>23,760</u>
Net increase (decrease) in cash held		(8,601)	(12,411)
Cash at Start of Year		<u>48,969</u>	<u>61,380</u>
Cash at End of Year		<u><u>\$40,368</u></u>	<u><u>\$48,969</u></u>

Note: This Statement must be read in conjunction with the accompanying Notes .

Glenlea Forest Partnership
Notes to the Financial Statements
For the Year Ended 29 February 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Financial Statements presented here are for the entity Glenlea Forest Partnership, which is a Partnership registered under the Partnership Act 1908.

Glenlea Forest Partnership is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of Glenlea Forest Partnership have been prepared in accordance with the Financial Reporting Act 1993.

Segmental Reporting

The entity operates in the forestry industry at locations in the North Island of New Zealand.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed, with the exception that certain assets specified below have been revalued.

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and comply with the NZ equivalents to International Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards. For this purpose, the Partnership has designated itself to be profit-oriented.

The information is presented in New Zealand dollars.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

- i Receivables and payables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method. Due allowance is made for impaired receivables (doubtful debts). The resulting carrying amount for receivables is not materially different from estimated realisable value.
- ii The forest plantations are recorded at fair value less estimated point of sale costs. Any gains or losses in the fair value of the forest are recorded in the Statement of Financial Performance.
- iii Glenlea Forest Partnership has voluntarily entered the Emission Trading Scheme ("ETS") in relation to 311 ha of plantation forest. Emission units are received from, or transferred to the government in respect of carbon stock changes in respect of this land. Carbon stocks are calculated in accordance with the climate change (forestry sector) regulations 2008. Some units received will have to be returned to the government upon harvest of the forest stock. As a result, units received are held at a nominal value and the units held are disclosed in the notes to the financial statements. Unit values will not be recorded in the income statement unless it is certain that the units will not be required to meet harvest obligations.

Glenlea Forest Partnership
Notes to the Financial Statements
For the Year Ended 29 February 2016

- iv Revenue on sales of goods is recognised when they are delivered and ready for use by the customer.
- v The entity is not a party to financial instruments with off balance sheet risk.
- vi Cash and cash equivalents include cash on hand, bank balances, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.
- vii Property improvements, plant and equipment is recorded at cost less accumulated depreciation. Land is recorded at cost. Depreciation has been calculated on a diminishing value basis.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised in the Statement of Comprehensive Income and is calculated as the difference between the sale price and the carrying value of the item.

Depreciation is provided for on a diminishing value basis on all tangible property, plant and equipment other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost or valuation less estimated residual value, over their estimated useful lives.

Major Depreciation periods are:
Land Improvements - average 24 years

- viii For the purposes of the cashflow statement, cash includes cash on hand and deposits held at call with banks.
- ix All taxable profits or losses are assessed to the partners of the partnership.
- x The financial statements have been prepared on a GST exclusive basis, except for receivables and payables which are presented inclusive of GST.

Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

2. AUDIT

These financial statements have been produced subject to audit, please refer to Auditor's Report.

3. BUSINESS

The principal activity of Glenlea Forest Partnership is that of Afforestation. The partnership grows pinus radiata for the purpose of selling the harvest in 2021.

Glenlea Forest Partnership

Notes to the Financial Statements

For the Year Ended 29 February 2016

	<u><i>Feb 2016</i></u>	<u><i>Feb 2015</i></u>
	\$	\$
4. CASH AND CASH EQUIVALENTS		
B N Z Current Account	10,978	10,765
B N Z Deposit - Investment Fund	29,390	38,204
	<u>\$40,368</u>	<u>\$48,969</u>

Deposit - Investment Fund

The deposit is available to fund any future obligation that Glenlea Forest Partnership may assume under its arrangement with other partnerships in the Roger Dickie Group Investment Fund. Glenlea Forest Partnership will contribute towards forest losses sustained by other partnerships and not covered by the Group Investment Fund.

5. PLANTATION DETAILS

The plantation is comprised of Pinus Radiata trees planted in the Wairoa District. The Net Stocked Area of approximately 311 hectares was planted in 1993.

6. PLANTATION REVALUATIONS

Valuer

The plantation was valued as at 29 February 2016 by Jeff Schnell, Registered Forestry Consultant (NZIF), of PF Olsen Limited, forest consultants and managers. The estimated fair value of the plantation is categorised within Level 3 of the fair value hierarchy.

Valuation Methodology

The valuation uses the following procedure:

- i Future Yields are forecast.
- ii Log prices are attached and harvest costs deducted to arrive at projected harvest revenues.
- iii Projected clearfell revenues are reduced to account for attrition.
- iv Future costs are added.
- v The effect of taxation is modelled from a purchaser's perspective.
- vi The resulting post-tax cashflow is discounted at the nominal discount rate. This generates a Net Present Value (NPV) by stand and by forest.

If the stand has a negative NPV after the discounting as above, then the stand value is assessed as the sum of the current replacement costs.

The fair value estimate excludes the value of the land and the improvements thereon.

Also excluded are any costs and revenues associated with subsequent crops, and any value arising from the Emissions Trading Scheme.

The key inputs used in obtaining fair value are as follows, along with their sensitivity to a significant increase or decrease.

Glenlea Forest Partnership

Notes to the Financial Statements

For the Year Ended 29 February 2016

Projected Yield

The growth potential was determined for each crop type based on measurement data supplied by the forest manager. Where a crop has not been measured, the indices estimated in the original prospectus have been used. A clearfell age of 28 has been assumed for the majority of the radiata crops. Some small stands have been assigned other clearfell ages to coincide with the harvesting of larger neighbouring stands. Yields have been projected from measured starting points (where data allows) using appropriate growth models. The Atlas Forecaster modelling system has been used. A significant increase in this input would increase the fair value of the plantation.

Log Prices

The radiata pine log prices used in the valuation have been derived from prices paid at the Gisborne and Napier ports over the past three years. An exception to this is the radiata domestic pulp price, which has been derived from the three-year average price (averaged to December 2015) as reported by MPI. They range from \$54 to \$154 per m³ depending on grade. Log prices for other species are taken from recent industry publications and other sources. A significant increase in this input would increase the fair value of the plantation.

Projected Costs

All costs apart from rates have been assessed by PF Olsen, and are based on current industry standards exclusive of GST.

- i Tending costs vary with the age of the trees.
- ii Annual costs for insurance, forest management, etc. have been assumed at \$120.30 per hectare per year.
- iii Clearfell harvest costs are based on current average contract costs.
- iv A logging and loading cost of \$28.30/m³ has been assumed for ground based logging, and \$38/m³ assumed for hauler logging. These are based on current operations in the East Coast region of the North Island.
- v A road and skid formation cost ranges from \$2,415 up to \$3,250 per hectare with a average of \$2,830 per hectare. In addition, a maintenance cost of \$1.60 per m³ has been assessed to cover road maintenance during the harvest operations.
- vi Harvest management costs are set at \$5.30/m³ for all crop types. This is based on current industry efficient costs for management of similar sized operations.
- vii Cartage costs are based on a cost model which has been derived from current actual contract rates.

A significant increase in costs would decrease the fair value of the plantation.

Glenlea Forest Partnership

Notes to the Financial Statements

For the Year Ended 29 February 2016

Discount Rate

The discount rate used in the estimate of the tree crop market value is important. The value estimate of young immature forests in particular is very sensitive to the choice of discount rate. The discount rate used represents a real rate of return, which is over and above inflation. Rates quoted by financial institutions are generally nominal rates, which include inflation. The discount rate selected of 7.0% is based on rates derived from actual transactions in the last three years applied to post-tax cash flows. A significant increase in this input would decrease the fair value of the plantation.

Impact of the Emissions Trading Scheme

In respect of the pre-1990 forest land the carbon credits allocation, in the valuer's opinion, does not impact on the tree crop market value estimate. In respect of the post-1989 forest land premiums may have been paid for this carbon trading opportunity, but carbon credit prices have since declined significantly. It has not as yet been possible to quantify this premium or conclude that such premium still applies to any or all post-1989 forests. This valuation therefore does not include any value in respect of this carbon trading opportunity. A significant increase in this input would increase the fair value of the plantation.

7. PROPERTY, PLANT AND EQUIPMENT

	Opening Value	Additions/ Deletions	Closing Value
<u>Land and Improvements - 2015 Year</u>			
Cost - February 1995	211,993	-	211,993
Accumulated Depreciation	<u>(6,388)</u>	<u>(160)</u>	<u>(6,548)</u>
Net Book Value	<u>205,605</u>	<u>(160)</u>	<u>205,445</u>
 <u>Buildings & Furniture</u>			
Cost	30,756	-	30,756
Accumulated Depreciation	<u>(19,993)</u>	<u>(1,230)</u>	<u>(21,223)</u>
Net Book Value	<u>10,763</u>	<u>(1,230)</u>	<u>9,533</u>
 <u>Land and Improvements - 2016 Year</u>			
Cost - February 1995	211,993	-	211,993
Accumulated Depreciation	<u>(6,548)</u>	<u>(149)</u>	<u>(6,697)</u>
Net Book Value	<u>205,445</u>	<u>(149)</u>	<u>205,296</u>
 <u>Buildings & Furniture</u>			
Cost	30,756	-	30,756
Accumulated Depreciation	<u>(21,223)</u>	<u>(1,230)</u>	<u>(22,453)</u>
Net Book Value	<u>9,533</u>	<u>(1,230)</u>	<u>8,303</u>

The latest capital value set by Quotable Value for rating purposes in August 2015 was \$870,000

Glenlea Forest Partnership
Notes to the Financial Statements
For the Year Ended 29 February 2016

	<u>Feb 2016</u>	<u>Feb 2015</u>
	\$	\$
8. CASH FLOW RECONCILIATION		
<u>Reconciliation of Cash Flows from Operating Activities.</u>		
Reported Surplus for Year	676,934	111,117
Non Cash Item - Depreciation	1,379	1,390
Non Cash Item - Forest Revaluation	(688,000)	(148,000)
	(9,687)	(35,493)
Movements in Working Capital:		
(Increase)/Decrease in Accounts Receivable	-	-
Increase/(Decrease) in Accounts Payable	835	-
(Increase)/Decrease in GST	252	(677)
	1,086	(677)
Net Cash Flow from Operating Activities	<u>(\$8,601)</u>	<u>(\$36,171)</u>
<u>Reconciliation of Cash Flows from Financing Activities</u>		
Calls on Participatory Securities	-	23,760
Net Cash Flow from Financing Activities	<u>-</u>	<u>\$23,760</u>

9. FINANCIAL INSTRUMENTS

Interest Rate Risk

The partnership has no interest rate risk given that no money is owed to other financial institutions.

Credit Risk

Financial Instruments which potentially subject the partnership to credit risk principally consist of bank balances, deposits and accounts receivable as set out in the Statement of Financial Position. The amounts set out are the maximum exposures and are net of any recognised provision for losses on these financial instruments. No collateral is held for any of these amounts.

Concentration of Credit Risk

The partnership is not exposed to any concentration of credit risk.

Liquidity Risk

Liquidity risk represents the Partnership's ability to meet its financial obligations on time. For the most part the partnership generates sufficient cash flows from its Partners annual capital contribution to make timely payments.

Currency Risk

The partnership has no currency risk given that any financial instruments it deals with is all in New Zealand dollars.

Price Rate Risk

Price risk is the risk that the value of financial instruments and the interest margin will fluctuate as a result of changes in market interest rates. The risk is that financial assets may re-price at a different time and/or by a different amount than financial liabilities. The partnership considers that such risk is minimal given that no funds are owed to other financial institutions.

Financial Risk Strategy

The Partnership risk management strategy is to use 100% equity finance from the partners.

Glenlea Forest Partnership
Notes to the Financial Statements
For the Year Ended 29 February 2016

10. EVENTS AFTER BALANCE DATE

There have been no significant events after balance date.

11. EMISSIONS TRADING SCHEME

Glenlea Forest Trustee Limited has replaced Corporate Trust Limited as trustee holding the Partnership land as registered proprietor in trust for the Partnership. Glenlea Forest Trustee Limited holds 81,693 NZUs (2015 - 85,443) on the New Zealand Emission Unit Register on behalf of the partners. The Partnership elects to record these at their Nominal Amount (\$0). The Fair Value of these NZUs based on prices offered by brokers as at 29 February 2016 is \$776,084 (2015 - \$504,114)

During the year, 3,750 NZU's were sold. Of the 81,693 NZU Units held at balance date, 58,444 are able to be sold without liability for future repurchase on harvest.

12. CAPITAL COMMITMENTS & CONTINGENT LIABILITIES

At balance date, and also the previous balance date, there were no known capital commitments or contingent liabilities.

13. RELATED PARTIES

The partnership paid administration fees of \$4,150 and management fees and forest expenses of \$10,310 to companies in which R R Dickie, a partner, has a controlling interest. These amounts were charged on normal commercial terms and conditions. The amount outstanding at balance date was \$813 (2015 - \$0). No related party debts have been written off or forgiven during the year.

14. JUDGEMENT AND ESTIMATE UNCERTAINTY

The preparation of financial statements of necessity involves judgement and estimation. The only significant estimation required for the year is the plantation valuation which includes factors such as expected discounted cashflow rates, harvest dates and current log prices at mill or at wharf, refer to the plantation note for details.

Forest Plantation

Glenlea Forest Partnership is one of approximately 90 forests administered by Roger Dickie (NZ) Limited using a common forest manager, Forest Management New Zealand (FMNZ) and a common valuer PF Olsen Limited. With a forestry estate of this size PF Olsen is able to carry out rotational checks on selected forests to validate the accuracy of forest data that FMNZ provides for the purposes of the forest valuation.

Due to the nature of a growing forest it is not practical or economic to be physically counted each year. The treecrop valuation is how the underlying growing forest is represented in financial terms.

FMNZ has been providing forest management services to the company since inception and has been producing the required data for the forest valuer (PF Olsen). PF Olsen is, a forestry consultant in its own right and qualifies as an expert for financial reporting purposes.

PF Olsen in order to rely upon the physical data provided by FMNZ validates this information

Glenlea Forest Partnership
Notes to the Financial Statements
For the Year Ended 29 February 2016

on a rotational basis in the following manner:

PF Olsen prepared the initial feasibility study that takes into account significant factors such as plantable area, topography and soils, climate, growth potential, forest development programme, planting and tending, and forecast yields.

Has knowledge of the geographic estate that the forest is growing in.

Inspects a subset of forests each year.

Carries out a ground-check map (to validate net stocked area, access).

Checks tending status, and uniformity of stocking, on a selection of stands (to validate measurement data provided).

Visual checks of stand condition (crop health, growth to date).

Checks for protection measures (e.g. water points, evidence pest control).

Seek explanations for any changes observed in net stocked area, crop typing.

Have relied on a systems audit of FMNZ carried out in the late 90's and the intention from PF Olsen is to conduct another systems audit during 2016.

15. PARTNERSHIP STRUCTURE

Partners have subscribed for Participatory Securities in the Partnership. The number of Participatory Securities has been fixed at 375,000 and they have no nominal value. The partners are required to contribute capital, and to share partnership profits and losses, pro rata in accordance with the number of Participatory Securities held by them in the Partnership. Capital contributions are in accordance with an annually approved budget. The Partners are jointly and severally liable for all Partnership debts.

Roger Dickie No 10 Limited partnership capital is unpaid. As disclosed in the prospectus, the payment is deferred and will be debited against his share of income from log sales.

**16. ADOPTION OF NEW AND REVISED
STANDARDS - (Early adoption of
Standards, Interpretations and Modifications)**

The partnership believes there will be no effects from accounting standards which have been issued but not yet effective.

Glenlea Forest Partnership

IRD No 061-378-863

Statement of Changes in Equity For the Year Ended 29 February 2016

	EQUITY ACCOUNTS				TAX RETURN	
	Balance 2015	Calls for Year	Sales Entries	Profit or Loss	Balance 2016	Share of Tax Loss
Benenden Holdings Limited	79,043	-	-	-	79,043	463
Bovis, J W	80,574	-	-	-	80,574	472
Bryant, P J	77,135	-	-	-	77,135	452
Butler, M J	85,791	-	-	-	85,791	503
Clarke, G D	171,220	-	-	-	171,220	1,003
Clark, P	34,868	-	-	-	34,868	204
Clemence Corporation Limited	75,538	-	-	-	75,538	443
Cretney, M J	75,538	-	-	-	75,538	443
Donnelly, M G	26,423	-	-	-	26,423	155
Falloon, J as Trustee	22,510	-	-	-	22,510	132
Fenrich Limited	75,538	-	-	-	75,538	443
Glenlea Lumber Company Limited	219,100	-	-	-	219,100	1,284
Jerdi Holdings Limited	151,076	-	-	-	151,076	885
Knott, D E as Trustee	82,110	-	-	-	82,110	481
McDell Holdings Limited	79,043	-	-	-	79,043	463
Pukekura Pines Limited	75,538	-	-	-	75,538	443
Sed Investments Limited	37,769	-	-	-	37,769	221
Spanna Forest Limited	37,769	-	-	-	37,769	221
Tangley Forest Limited	83,505	-	-	-	83,505	489
Wild, J R	81,677	-	-	-	81,677	479
Wright, J G	161,147	-	-	-	161,147	944
Roger Dickie No 10 Limited - see Note 15	(12)	-	-	-	(12)	443
	1,812,898	-	-	-	1,812,898	11,066
Retained Earnings	2,572,450	-	-	676,934	3,249,384	
Total Equity	4,385,348	-	-	676,934	5,062,282	

Note: This Statement must be read in conjunction with the accompanying Notes.