KAHEKA 1 FOREST PARTNERSHIP

MINUTES OF THE ANNUAL GENERAL MEETING
HELD AT THE ESKDALE RUGBY CLUB
ON SATURDAY 16 APRIL 2016 AT 8.30AM

PRESENT
Roger Dickie (No 7) Ltd (in attendance by Proxy by Margaret Prince), Claire & Rod Fulford, Peter Hancox, Andrea Hancox, Grant Mills, Guy Chilvers, Keith Miller, Neil Bowman, Roger Walter, Warren MacDonald.

ATTENDING
Steve Bell, Jason Osborne & Rory Bennison (Forest Management (NZ) Ltd) Jeff Whitlock & Margaret Prince (Markhams Waverley Ltd), Roger & MaryAnn Dickie, William Dickie & Charles Dickie (Roger Dickie (N.Z.) Ltd), Edward Dickie (Harvest Logistics).

APPOINTMENT OF CHAIRMAN
Nominations were called for the position of Chairman for this meeting.
K Miller/ N Bowman THAT Jeff Whitlock be appointed Chairman for this meeting. CARRIED

APOLOGIES & PROXIES
Apologies were received from A Templeton, Browns Pines Ltd, Click Ltd, Cranleigh Forests Limited, D Brougham, D Adamson, D Frost, E Culley, G Jansen, Glen Sylvan Ltd, M Gelsen, S Bentley, S Richardson,
Proxies were held for the above named.
R Fulford/ G mills THAT the apologies & proxies be sustained. CARRIED

MINUTES
The minutes of the 2015 Annual General Meeting had been circulated.
P Hancox/ Roger Dickie (No 7) Ltd (in attendance by Proxy by Margaret Prince) THAT the minutes be confirmed.
CARRIED

ARISING FROM MINUTES
Nil

REPORTS AND FINANCIAL ACCOUNTS
The reports from Roger Dickie, Forest Management (NZ) Ltd, PF Olsen's 2016 Tree Crop Valuation and the 2016 Draft Financial Statements were tabled and discussed.
Partners were reminded that in the past the financial statements were passed 'subject to audit' however, the Securities Regulations 2009 requires annual general meetings of partners to be held for the specific purpose of considering the "audited" annual financial statements. As audits have not been completed in time for this year's AGM draft accounts were presented for discussion.
Roger Dickie advised that the audited financial statements will be distributed and in the unlikely event there are any changes from the draft accounts, partners will be advised. A meeting to approve the audited financial statements will be called and voting can be done on line.

INSURANCE
N Bowman/ P Hancox THAT Public Liability Insurance be effected for $10 million. CARRIED

ADMINISTRATION
N Bowman/ P Hancox THAT the administrators' remuneration be at a rate of $360 (GST excl.) per month.
CARRIED

BUDGET
P Hancox / G Mills THAT the Budget Cashflow Statement for the year to 28 February 2017 be approved subject to addition of road lining expenses and log revenue.
Note: these figures were added and an updated budget was circulated to partners CARRIED
Note: It was highlighted that the road lining expenses and income were not included in the budget.

In response to a question 'why had no NZU's had been claimed during the last year?' Steve Bell explained this was because any claimed would carry liability and have to be surrendered at harvest. It was also suggested to that with carbon price rising only enough units are sold to cover costs with minimal end of year balance.

HARVEST MEETING

Steve Bell from Forest Management NZ Limited (FMNZ) gave a brief presentation outlining the road to harvest. The presentation covered introduction of FMNZ Staff and their expertise, a brief history of the development of the RDNZ managed forests, the scale of the group and operation ahead, harvest planning and an overview of the harvest planning process.

Kaheka 1 Forest – 194.7 ha planted 1992/93

The harvest planning and operation requires the following steps -

Update of the forest mapping: This is vital to ensure we have accurate data. This will be carried out using the Light Detecting and Ranging system (LIDAR) which is digital terrain modeling technology and extremely accurate.

Pre Harvest Inventory (PHI): The data collected is used to generate yield tables showing the recoverable volume and anticipated log grade outturn. This data is valuable in determining what log cuts and markets are best suited to the individual forest.

Harvest Plan: This is a combination of things including the most appropriate locations for roads and landings. It is initially a paper plan using the LIDAR information and software programs which are then validated in the field ensuring it is workable and the best option. The plan needs to consider harvest systems, crew configurations and regulatory requirements.

Resource Consents and Compliance: Dealing with regional councils submitting plans and applications such as resource consents, bridges, archaeological sites, Iwi consultation, neighbours, access and entranceways.

Contractor Management and Strategic Planning: This includes Health and Safety management systems, contracts and compliance, contract procurement options (availability and tenders), service providers vs. key supply, Export Markets and contracts with domestic suppliers, wood flow and infrastructure for getting volumes to market, environmental issues such as slash and debris management, stand boundaries and shared access.

Internal Forest Road Construction: Once the harvest plan is completed and consents are in place the road lining (construction of road corridors) will be carried out 18 – 24 months in advance of full harvest operation to allow roads to settle before being submitted to heavy log truck traffic. Letting the roads settle in this manner reduces the cost of maintenance during harvest. Road lining requires a crew to harvest an approximate 20 metre strip allowing the roading engineering crew to construct the road. This work is funded by sale of logs harvested to create the corridor. Arterial roads will be medaled. As a general rule the average density is 32 metres of road per ha with an average engineering cost of $6- $9 per tonne of harvested logs at clearfell.

Clearfell Harvest: The harvest plan will identify the best crew configuration and harvest system for the site and an appropriate harvest crew will be contracted to proceed with the clearfell operation. On average a good crew will harvest 60-70,000 tonnes per year or around 100 ha. A benefit of the RDNZ estate is we can offer continuity of work going forward and this attracts quality contractors with quality equipment and most importantly, best rates relative to quality of work. Contractors are paid on a per tonne rate. All logs are tracked through a docket system. A regular audit of log grades is carried out to ensure best outcomes are maintained.

How this is funded: Pre-harvest Inventory; the planning and resource consents are paid from partnership funds (sale of NZU's) as estimated in this year's budget. The development of forest infrastructure including road lining, logging cartage, levies and weighbridge fees and harvest management is all funded from log sales.

Reporting to partners: FMNZ operates an open book harvesting and marketing agreement. There will be detailed monthly reports sent to all partners complete with a disbursement statement.

Timeline for Kaheka 1 Forest:

- Work on developing the Harvest Plan has started. Once completed a harvest Cashflow will be presented to partners.

- Work on road construction and preparing the forest for harvest is set to commence later this year (2016) as budgeted with clearfell due to comment in the summer of 2017- 18.

- With Kaheka 1 having a net stocked area of 194.7 ha and a good crew harvesting approximately 100 ha per year, it will likely take approximately 2 years to complete the harvest.

Forest re-establishment: Each winter the harvested area will be replanted. This ensures the value of the land asset is maintained as to not replant would see the land revert to weeds and significantly devalue. In many cases replanting is a condition of resource consent to harvest.

Markets: Over the 5 years harvesting period log prices will fluctuate. We cannot control the markets, only the expenses. Smoothing of the harvest is vital and harvesting should not be turned off as markets fluctuate. Volumes can be reduced in times of lower prices and increased when prices are higher. Economy of scale and continuity will give best overall results.

General discussion and a Q & A session followed Steve Bells presentation.

In response to the questions Roger outlined two possible options for partners to consider post harvest.
1. To continue for another rotation for beneficiaries.
2. To sell the newly planted forest.

Roger advised that at the 'Harvest and Beyond' conference held in Napier in 2014 one of the concerns of partners was, they did not want to commit their beneficiaries to ongoing share calls.

This can be overcome and a scenario was presented where the next rotation can be prefunded allowing partners to leave a totally unencumbered, fully funded legacy to children and grandchildren. RDNZ have already done this with two forests Granity and Woodleigh and it has worked well.

The concept involves leaving approximately $3,500 per ha of harvest income in the partnership to be banked and the partnership would draw on the account to fund the next rotation. Bearing in mind the property would have significant roading infrastructure in place resulting in lower costs for the next rotation.

If the partners vote to sell the newly planted forest, the prefunded option would see the forest funded until such time as a buyer is found.

In answer to the question *"could the forest be sold before harvest?"* - Roger advised yes, however, to do so would see it sold at a discount as buyer would want to see upside and cited the example of the Oban Forest that was purchased for $17,500 per ha land and trees. The buyer immediately commenced harvest and is averaging a net stumpage of $25,000 per ha.

Meeting closed with a vote of thanks to Steve Bell and his team.

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R R Dickie
Kaheka 1 Forest 2016