19th April 2019

Maxwell Post Harvest Options

Hello,

It has been very pleasing to analyse the harvest of the first rotation of Maxwell forest. 29 years ago we set off together, me with my first ever registered prospectus, safe in the knowledge that we had the experience of Geoff Redington to develop our asset. We have come successfully through to fruition. Our forest managers forecast a net stumpage of $16,200 per ha and we ended up with $29,924 per ha. (A great result). Harvest of the main block was completed during December 2018. The Little Waikare block is 60.8 ha stocked and the youngest plantings there of 8.8 ha is now 28 years old and still to be harvested. How quickly the 29 years has passed for us all, we hardly look a day older!! Hopefully you, like myself are happy with the outcome of this investment. For some time, we have been discussing what happens after the Maxwell forest harvest has been completed.

Now with the financial statements complete for the past year we can provide information to assist in making decisions about the future.

This letter accompanies the notice for the Maxwell Forest Partnership AGM to be held at Ashley Park, Waitotara on Friday 10th May 2019.

You will recall at the 2018 AGM we passed a resolution to retain some of the last harvest receipts to either fund the next rotation or until such time as a buyer could be found for the forest and land.

We now need to vote whether Maxwell partnership continues to a second rotation or alternatively list the newly planted forest for sale and wind up the partnership. (Approximately 120 ha is left to replant this winter).

Resolutions to that effect are included in this mailing.

Below I have outlined some points to consider as we move forward.

- How did we do compared to the offer we received in 2015 to sell land and trees?
- The current situation at Maxwell.
- The next rotation at Maxwell, prefunding and how it would work.
- Option to sell the newly planted Maxwell forest.
- Decisions to be made now for the future.
- The outlook for forestry.

How did we do? Harvest versus sale of the entire property and forest in 2015.

We received an excellent offer in 2015 from our exporters (Summit) to buy all the Maxwell land and trees pre harvest for $5,000,000.

In 2015 your voted to reject that offer and continue with harvest.

We received $6,985,000 in net harvest receipts from the main block and, as well, todays valuation of the land for the two blocks is $895,000, and the trees at Little Waikare are valued by Olsens at $400,000.

A total in receipts and present valuation of $8,280,000

This means there has been a cash return of 7.4% IRR plus in addition (not included in that figure) the Partnership owns the land (present CV $895,000) plus tree crop on both blocks of $399,000 plus NZU's ($300,000).

The current situation at Maxwell.

Maxwell was planted in 1990 and began harvesting in November 2016. (At age 26). When we began harvest, we forecast stumpage returns of $16,200 per hectare. We actually returned $29,924 per ha.

Replanting of the forest has occurred each winter following harvest with the final planting to be completed this coming winter.

At the 2018 AGM we presented a draft cashflow for a second rotation, partners voted to commence retaining earnings to fund the replanting and to prefund next rotation, should that be what partners ultimately vote to do.

At the same time partners commissioned an independent second rotation feasibility from PF Olsen. The full feasibility is provided with this information.

In summary, the feasibility report supports the draft cashflow presented at the 2018 AGM and forecasts a second rotation IRR of 7.2%

Regardless of the outcome of the resolutions at the AGM in May, there is a final disbursement of approximately $600,000 ($24,000 per 4%) to be paid to Partners shortly.

Even with this disbursement the Olsens feasibility study forecasts the remaining funds and NZU's are enough to fund the next rotation without share calls.

Moving forward there are two options.

1. We prefund the next rotation, this means leaving in (retaining) approximately $2,970 per hectare. This amount will fully fund the next rotation and create income in perpetuity. Those that want to sell their Partnership Interests can do so to either other partners or on our secondary market. Note you will be able to hold securities in smaller parcels if you wanted to distribute your ownership among beneficiaries.
2. If a majority of partners vote at our May meeting to sell Maxwell forest when compulsory replanting is finished, then, funds from the sale of land and trees and any retained earnings would be distributed to partners, winding up the investment.

The next rotation at Maxwell, prefunding and how it would work.

Our investor database is older - after all, we have been in this investment for 29 years! The most frequently asked question is what happens after harvest, and how can I leave this to my beneficiaries without the annual share calls.

The obvious answer is to prefund the next rotation, this leaves an unencumbered legacy to your beneficiaries, creating income in perpetuity. This is a concept we have been considering for a long time and is identical to the prefunding model we have used successfully with our 300 ha Granity and Woodleigh forests and Waikare forest. So how would it work? Included with this document is a forecast cash flow from Olsens (Forest Consultants) on how funding the next rotation might look.

In summary the report findings to prefund the next rotation are as follows:

	Total	Per Hectare	Per 4% Share
Maxwell Area	242.2		
Little Waikare Area	60.8		
Income retained from Harvest receipts	$900,000	$2,970	$36,000
Forecast Harvest Revenue - second rotation (pre tax)	$8,712,382	$28,754	$348,495

Maxwell second rotation nominal Pre Tax IRR 7.20%

Assumptions:

All revenues and costs have been inflated at 2.0% per annum

Cash held at the bank earns interest of 3.35%

The forecast cash flow shows a minimum bank balance in year 23 of $20,522.

So what does this really mean?

Maxwell Forest has had an average return of $29,924 per hectare.

There is a legal requirement to replant the forest. This cost ($1,650 per ha) is deducted from the $29,924. The last planting will occur in winter 2019

The cost to fully fund the planted forest for the next rotation not allowing for pruning, is $2,970 per ha. $982/ha of this will come from the final one off sale of NZUs. This is effectively a bonus to us as partners. The remaining $1,988 per ha would need to be retained from harvest income to fully fund the next rotation.

In non inflation adjusted terms, the forecast harvest revenue for the next rotation is $28,754 for an un-pruned tree crop.

Forecast harvest revenue after inflation is $48,274 per ha for the next harvest beginning in 25 years time (2044). The Little Waikare tree crop will be harvested in 2039 (20 years) for $47,396 (inflation adjusted).

Option to sell the newly planted Maxwell forest

If the majority of partners vote at our May meeting to sell Maxwell forest, then the forest will be listed for sale.

There are a number of considerations here. Firstly we know a sale takes a willing buyer and a willing seller. Typical forest land sells for around the CV. Maxwell has a CV of $895,000 ($2,953 per hectare). Historical sales evidence shows a newly planted tree crop will be valued for around the establishment costs of $1,650 per hectare.

In our experience buyers like to wait until the tree crop is established, say after two to four years, so they can bid in confidence knowing the survival count of the planted tree crop. The point to note here is that (when one looks at other sales evidence) the cutover forest market gives little value to the roading and skid infrastructure already established in the forest - in Maxwell's case this equates to $1,366,181 ($5,860 per hectare).

In either case we would be trying to achieve the maximum sale price for investors on the open market. Ultimately we don't know what this would be until offers are received.

Should the decision be made to liquidate the partnership, we would advocate funds be retained to fund the forest until such time as a buyer is found, we would not ask partners for cash input.

Options for an individual partner wishing to exit the Maxwell investment

The greatest liquidity for a partner wanting to exit is at the time when the cost or value of their share in the partnership is at its lowest level ie immediately after replanting.

After initial discussions with partners at the last AGM and a straw poll it appears that most people want to prefund the next rotation creating income in perpetuity. Several partners have indicated they would like to increase their holding and have an interest in buying out departing partners.

As well, our secondary market has become much more active in the last few years and we have a number of external purchasers interested in acquiring more Partnership Interests.

For partners wishing to exit Maxwell we will facilitate the sale of their Partnership Interests. We understand that everybody has different drivers in their investment portfolios.

The outlook for Forestry

Recently we have been in discussions over a different forestry matter with a wide range of NZ log exporters and Chinese log importers. There is no doubt the short, medium and long term market expectations in China are very bullish. This is brought about partly by the closing up of all the Chinese indigenous forest harvest for an indefinite (long term) period. As well, the improvement in the American housing market has resulted in less logs available for Asian markets from the eastern pacific rim.

Another important historical predictor of wood demand and prices is the demand for wood per capita when compared with the socio economic standing of the customers. For example Chinas wood use is rising directly in proportion to their increasing socio economic standards.

This has resulted in a number of new players (purchasers) looking at New Zealand log purchases. Our recent trips to China have showed they are automating their processing and production and demanding increasing volumes of log. We are also fielding increased enquires from overseas forest owners, looking for assets in New Zealand to take advantage of this exposure to Asia and India. We have recently met representatives of a Chinese company here in New Zealand. They have a NZ $20 billion annual turnover, presently import 600,000 cubic metres of logs from Russia and want to add 1 - 2 million cubic metres of logs annually from New Zealand to their business. On my trip I met two other major log importing companies who are looking to substantially increase their import of New Zealand logs.

The large forest plantings in New Zealand from 1990 to 2003 have been followed by very low levels of new planting and I feel that owners of trees planted now will be in a very strong position when the next harvest begins.

A comment on pruning.

For eight of the last ten years pruned log prices have not received sufficient premium over A grade log prices to justify the cost of pruning when the forest is 4 to 8 years old.

An unpruned forest will have more stems per ha at harvest time and a yield of around 15% or 100 tonne/ha more than a pruned forest. For this reason we have based our assumptions on a framing grade (unpruned) forest.

Growing the forest under a framing regime does not mean we cannot covert to a prune regime at year five if it becomes financially viable.

Where to from here?

I would encourage partners to attend the Wanganui meeting. We will consider the investment and then vote on their preferred course of action. You will be able to vote by proxy or by attending the December meeting at the forest.

If you have any questions please call Will (0274 587 957), Roger (0274 428 687) or Grant (06) 3465329 to discuss.

Will has been closely involved with this for Waikare (who have voted to continue to second rotation) as well as Maxwell. He is going to call all of you in the next five days.

Regards,

Roger

PS As I check this letter from our forest AGM's on the East Coast I have noted positive interest from shareholders in second rotation as well as secondary market sales.