

MALTHOUSE FOREST PARTNERSHIP

MINUTES OF ANNUAL GENERAL MEETING HELD AT WAIROA WAR MEMORIAL HALL AND THE PROPERTY ON 22nd APRIL 2018 AT 8:30AM

PRESENT

Keesto Forests Limited (Ray Stoddart & Jane Keef), Roger Dickie (No 14) Limited (Margaret Prince as Proxy), Roger Dickie.

ATTENDING

Steve Bell, Rory Bennison, Nathan Wallace, Richard Airey (Forest Management (NZ) Limited), Will Dickie, Richard Bourne, Grant Morris (Roger Dickie (NZ) Limited), Jeff Whitlock, Margaret Prince (Moore Stephens Markham's Waverley)

APPOINTMENT OF CHAIRMAN

Nominations were called for the position of Chairman for this meeting.

Jane Keef /Roger Dickie THAT Roger Dickie be appointed Chairman for this meeting.

CARRIED

APOLOGIES AND PROXIES

Carli Investments Limited, Dennis Sanvi, Jan Wouter Johannes Hendriksen, Jeremy Tricker, John Richard Wild, Lee Pee Limited, Meredith Gardiner, Northern Forestry Limited, R2D2 Limited, Richard Sanvi, Stephen Brent Bailey, Topmalt Limited. Proxies were held for the above named, establishing a quorum for the meeting.

Roger Dickie/Jane Keef THAT apologies and proxies be sustained.

CARRIED

MINUTES OF THE PREVIOUS MEETING

The Minutes of the April 2017 general meeting had been circulated.

Ray Stoddart/Roger Dickie THAT the minutes be confirmed.

CARRIED

ARISING FROM THE MINUTES

Nil

REPORTS AND DRAFT FINANCIAL STATEMENTS

The reports from Roger Dickie, Forest Management (NZ) Ltd, PF Olsen's 2018 Tree Crop Valuation and the 2018 Draft Financial Statements were tabled and discussed.

PUBLIC LIABILITY INSURANCE

Ray Stoddart/Roger Dickie THAT Public Liability Insurance be effected for \$20 million.

CARRIED

ADMINISTRATION

Jane Keef/Roger Dickie THAT the administrators' remuneration be at a rate of \$378 (GST excl.) per month.

CARRIED

BUDGET/CASHFLOW

Jane Keef/Roger Dickie THAT the Budget Cashflow Statement for the year to 28th February 2019 be approved.

CARRIED

It was noted the NZU sales shown in March are a drawdown of funds from the partnerships investment account where funds from the sale of NZUs are held. It is to cover the tax partners are required to pay on the sale of NZUs. It is also shown as a distribution, to partners, in April. The

balance of funds remain in the interest bearing investment account (as shown in Financial Statements) to cover ongoing holding costs thus eliminating share calls as voted for in 2017.

It was stressed that with roadlining planned for later in the year figures were best estimates. There are a number of variables that can affect the cost and timing of activities, such as weather, availability of roading and harvesting contractors and crews etc.

GENERAL BUSINESS

Harvest Planning

Steve Bell and Rory Bennison from FMNZ gave a harvest planning presentation. *(the presentation can be viewed on your forest's page of the website)* and there was a site visit with Forest Management staff and a general Q & A session in the field.

ETS (Emissions Trading Scheme)

William Dickie gave attendees an update regarding the ETS. The Government announced the ETS will be reviewed in late 2019 and there seems to be a general consensus within the industry that further upside in the price of carbon is likely given the Green influence in the coalition. The manager continues to monitor the market.

Log Markets

There was an update on the outlook for log markets in the short to medium term. Overall, momentum remains robust in China, log offtake from the ports is up to 100,000m³ per day with log inventories sitting between four and five million cubic meters. Exchange and shipping rates had increased slightly.

Health and Safety

It was discussed that this is a significant factor in the forestry industry. The forest managers are being very proactive in this space to ensure best practice from all contractors in our forests.

Tax

Jeff Whitlock from Markham's Accountants (the partnerships accountant) commented that harvest income in some cases can be spread back over the 3 previous years as well over the harvesting years. Jeff stressed that as everyone's situation is different partners should take accounting advice – sooner rather than later. *(note: Jeff can be contacted at Moore Stephens Markham's Wanganui and Waverley)*

Post harvest options

What happens after harvest is an often asked question and was a key discussion point at the 2017 RDNZ Harvest and Beyond conference.

Each winter the harvested area will be replanted from harvest receipts. This maintains and enhances the value of the land asset. To leave it unplanted would see the property revert to weeds and devalue significantly.

During the last year of the harvest, partners will need to vote re the future of the partnership and forest.

Options are:

- 1) To continue for another rotation for partners beneficiaries.
- 2) To sell the newly planted forest and dissolve the partnership.

If the majority wish to sell then the property will be listed for sale. Bearing in mind it will likely take time to find a buyer for the newly planted forest.

If the majority want to retain the asset for their beneficiaries, then those who want to retire from the partnership can offer their share of the land and newly planted forest for sale.

Firstly - to the other partners under the pre-emptive rights rule

Secondly - on the secondary market to new investors.

RD NZ facilitates the secondary market.

Second rotation

One of the concerns that partners have is that they do not want to commit their beneficiaries to future payments / share calls.

To overcome this, the suggestion is to leave a small portion of harvest income per ha in the partnership. This amount will vary from forest to forest. The funds will be invested in a bank account and drawn on to fund the next rotation.

In most cases your forest is still holding a significant number of liability free NZUs – currently trading at \$21.00 with many pundits advocating further upside in future years.

These NZUs are in reality an unbudgeted bonus as they were not factored in to the original Cashflow. Income from the sale of these NZUs may be an appropriate use of the balance Liability free NZUs.

As well, because the land your forests are on is post 1989 the carbon sequestered during the next rotation could be leased thus giving another income stream to contribute to the holding costs.

In essence the next rotation would be fully 'pre-funded' with minimal harvest income having to be retained.

Pre-funding a forest is not new as we have already done it with two forests (Granity Forest Ltd and Woodleigh Forest Ltd) and has worked. The two Wanganui forests that are at the end of harvest have adopted the model.

This 'Pre-funding' arrangement would allow partners to leave a totally unencumbered, fully funded asset for their beneficiaries – children, grand children or favourite charity. A great legacy.

If on the other hand the majority vote to sell the newly planted forest, then the pre-funding model would ensure the forest was funded until such time as a buyer can be found. Rather than sell immediately after harvest it may be better to wait until the new crop is well established – say age 5.

It was stressed the decision as to the future of your forest is still a few years away. However it is appropriate to discuss possible options.

Secondary Market

We have had very little to offer on the secondary market with no secondary sales for 4 months. We have a good number of existing partners who have registered an interest in securing additional investment. Partners looking to secure additional Partnership Interests or divest were advised to contact the office.

MEETING CLOSED: 3:00pm

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Chairman

Malthouse Forest Partnership 2018