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NEW ZEALAND

26th April 2018

Hello

Well another year has passed and we are fortunate at Maxwell that log prices have stayed firm and returns are ahead of our original estimate.

Our harvest managers (Steve Bell and his team) estimate the harvest will be completed towards the end of this year with a final harvest payment a few months afterwards.

We are now coming to the period where we need to discuss the future of the forest, do we sell after we have replanted or do we go for another 25 years and leave an inheritance for our children and grand children.

The pre funded idea (i.e. pay all the funds in advance and lodge in an interest bearing account) which we discussed at the meeting last year is one that seems to be favoured by many. We have operated our Woodleigh and Granity forests for more than 20 years by this pre funded method and it has worked out well. Last year the Waikare partners agreed to the pre funding method and have begun retaining earnings.

At this year's meeting we will have second rotation draft cash flow for discussion. At this stage it is only a discussion, no decisions will be made.

Below this letter I have copied the Post-Harvest Options discussion paper from last year.

I look forward to seeing you at the meeting.

Regards

Roger Dickie

Post Harvest Options – discussion paper 26/04/2018

(circulated at last year's AGM, with updated information)

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 for sale.

Firstly - to the other partners under the pre-emptive rights rule
And
Secondly - on the secondary market to new investors.
RDNZ facilitates the secondary market.

Second rotation:
One of the concerns that partners have is, 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 into the original Cashflow. Income from the sale of these NZUs may be used to fund the next rotation.

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 cover 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 this is working well.

This 'Pre-funding' arrangement would allow partners to leave a totally unencumbered, fully funded asset to 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 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.

Waikare Forest – the first RDNZ forest to be harvested, voted to continue under the pre-funded plan.

The decision to continue for another rotation or sell the land and newly planted forest and wind up the partnership is not one to be made until later this year.