



Forest Partnership Report

04 April 2018

Hello,

It's been another busy and successful year for the forestry sector. Demand for New Zealand radiata has remained strong and consistent throughout the year. This has seen continued high prices at wharf gate and local mills. On the growing front, we had a dry start to the summer but plenty of rain in the latter part. FMNZ our forest managers report good growth in all of our forests. The recent rain events on the East Coast did little damage to any of our forests, this contrasted with the substantial slipping and washouts on neighbouring grassland properties.

More information is being dispersed by the Government about their intentions to plant 1 billion trees or 100 million per year (ie 100,000 ha per year). Most of you will have realised that there is quite a bit of political speak in this figure as half of it (50,000 ha per year) is replanting of existing forests, almost all of which would have taken place anyway.

FMNZ have been very busy as more of our forests move into the harvesting phase and a number of our forests have begun road lining (making new roads for harvest) and preparing for their main harvest in a year or two. The growing harvest volumes have put a real strain on forest harvest and transport infrastructure and as you can expect this has unfortunately put upward pressure on forest costs. We know that FMNZ are doing their best to secure the services of good reliable contractors with a credible track record, in return we offer those contractors longevity of work which allows them to stabilise their own crew arrangements.

Your Forest

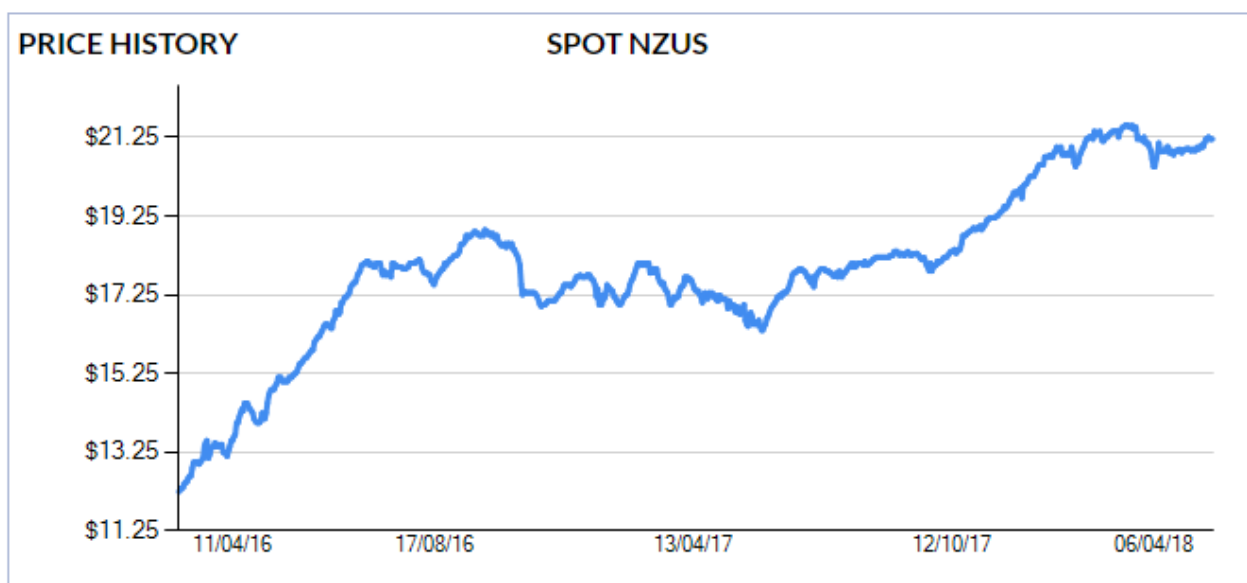
Please see my attached letter regarding Roxburgh Forest. I welcome your feedback and comments.

Carbon Update

This carbon information is not directly related to Roxburgh Forest, however you may find it interesting to understand where the carbon market sits. At the AGMs we approved resolutions to sell around 50% of your forests liability free NZU's. The reasoning behind this was to lock in the higher NZU prices that the market

has reached and also guarantee funds were in place to finance forests through to harvest. I am happy to report that we have recently completed the sale of these Liability Free NZUs. As discussed the market for these units is very thin, when the Forest Managers sell even small parcels of NZUs (10,000 units) it can cause a fluctuation in the price. The units were sold in 37 different transactions to seven different buyers over six months. We have been selling into a rising NZU market and achieved an average price of \$18.37 for your units.

The money from the sale of these units is held in the BNZ client funds (where the funds were held that we had been using to pay for our insurance each year) Your budget shows an amount for NZU income coming in in March and out in April. This is 35% of the total sale amount, 33% (the highest tax rate) will be paid out to partners to cover their share of the profit from your partnership this year. It is anticipated that this payment will be paid out to partners in the next few weeks.



Log Markets

I think AgriHQ summed up the export market best at the moment, when they stated that 2018 is off to a flying start.

The country shipped a record 18.8 million cubic metres of softwood logs overseas in 2017, up 18 percent on 2016, with exports to China jumping 29 percent and accounting for three-quarters of the total.

This is on the back of the Chinese Government clamping down on harvesting its own forests. It's also good news in India, Japan and South Korea when volumes are also up substantially. This all bodes well for the coming year.

As the ten year combined log indicator graph shows the increased log prices are certainly welcomed as we begin the main thrust of our forest harvest.

Domestically, our local suppliers are coming to terms with the higher log prices, we've seen some mills cut back labour to save costs and other's invest in further automation to remain competitive against the export markets.



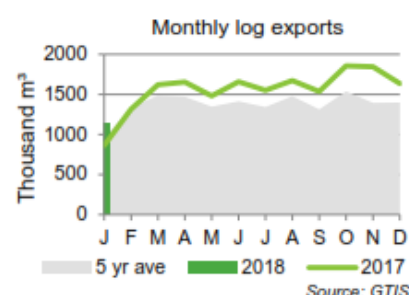
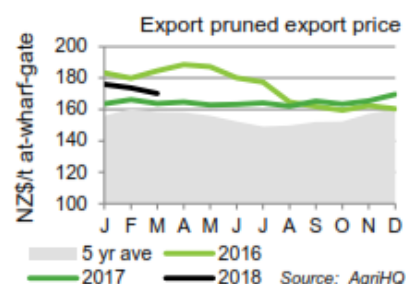
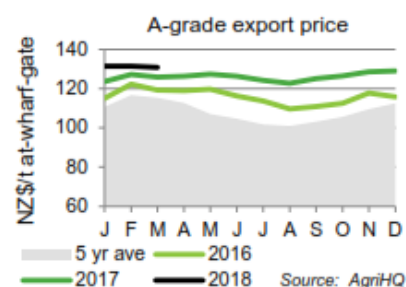
Insurance

As our forests grow in value, so does our insurance premium. We met senior representatives of our forest insurance underwriters from Germany last month. They reported that our track record is reasonable from their point of view and there will not be an increase in the rate of insurance this year. This is on the proviso that we do not have to make any more claims before renewal in September.

As you were aware we had a wind damage claim in our forest when Cyclone Cook came through the East Coast last year. This has all been processed and settled with the Insurer, there was a small amount of timber salvageable and the remaining damaged areas (around 29.5 ha in 11 forests) was paid out in full. The overall wind damage was very minor and Olsens in their valuations commented that it will have no effect on yields of the forests moving forwards.

Fire Levy

From 1st of July 2017 the Government is combining nearly all organisations (about 40 entities) with fire fighting and fire control responsibilities into a single organisation for better efficiencies. This is likely to have an effect for us as foresters. Historically we have paid a small annual fire levy, with the main components of fire fighting cover in our district council rates. Now Fire and Emergency New Zealand (FENZ) is allocating that charge on insured property - i.e. the more you insure the more fire fighting levy you will pay. The forestry sector is contesting these increases and new levies.



Napier-Wairoa Rail line

The line has been unused since storms washed out the section north of Wairoa in 2012. Since 2016 there has been a plan in place to re-establish the railway from Wairoa south - this could be of benefit to our forests in the region if the costs are competitive.

In the middle of February KiwiRail confirmed \$5 million in funding from the regional development announcement. Contractors have now started cutting back overgrown vegetation and will then move on to drains and culverts.

We understand one of our private overseas investors is part of a small consortium planning to operate the line. The first log train is expected to run by the end of the year. At the end of the day price will be the factor that dictates what transport method we use.

Harvesting

It was great to get so many of you to our conference and out to a harvesting site to see firsthand what happens to get your trees from the forest to the end user. Our forest managers (FMNZ) have been working incredibly hard to find and retain good quality harvest contractors to take on our harvest. At the moment we have 11 crews working for our forest managers and more about to start towards the end of winter. Certainly the continuity of work that our group of forest provides is a big carrot to attract the good contractors. I would reiterate here that the Harvest Plan and timing on the harvest is just estimated in your budget. Weather, and a number of other factors, play a big part in determining when the work will start.



Aerial View of Tangoio Forest

Valuations

We have recently received the annual forestry valuations from PF Olsens, once again the news is good. Prices for all log grades in both export and domestic markets have increased over the past year. This coupled with the increase in volume of our trees as they grow has seen the average value across the estate increase by 23.5%. This varies from forest to forest.

Conference

As I mentioned in my last report, we hosted our 5th Conference on Harvesting and Beyond. The feedback has been very positive. For those that missed the presentations they are all available on our website.

Power Corridors

As previously discussed, Unison Network are seeking to recover the cost of repairing their lines following storm events which blew trees over their lines and caused power outages.

They have now served legal documents to us to recover these costs. We have notified our insurers of their claim. The insurance company are seeking a legal opinion which will enable them to decide whether to pay the damage out under the Public Liability Policy or whether to defend the charges brought against us by Unison.

The legal opinion has recently arrived and while we have not had much opportunity to study the document closely, the opinion is suggesting the case would have a 50/50 chance of success and any decision would most likely set a precedent if it were to go to court. On this basis, the insurance company may well decide the most pragmatic way forward is to pay out the damages.

If they choose to take this course of action, it still leaves

the unresolved issues surrounding the powerline corridors and we will continue to work with the Forest Owners Association and Regional Forestry Boards such as Hawkes Bay Forest Group to effect change via Government.

Alternatively, the insurance company may decide to go to court. This would certainly help to clarify the problematic relationship that currently exists between foresters and lines companies. We shall keep you advised.



The faller in Maxwell Forest - he's due for retirement at the end of the month

New Staff

We welcomed two new staff members to our office in recent months. Dot joins us in the farming administration looking after the farms, and Ingrid who is involved directly with the harvesting and administration of your partnerships.

Secondary Market

There are active buyers and sellers in our secondary market. If you are looking to buy or sell, please contact the office to see what is available. There are also shares available in our dairy farms and sheep and beef farm.

Regards

A handwritten signature in black ink, appearing to read 'Roger Dickie', with a stylized flourish at the end.

Roger Dickie

20 March 2018

Silks Audit Chartered Accountants
PO Box 7144
Wanganui 4541

Roxburgh Forest - Tree crop valuation

As requested, we have assessed the fair value of the tree crop assets at Roxburgh forest owned by Roxburgh 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 28 February 2018 at:

\$695, 000 plus GST (if any)

The current productive net stocked area is estimated at 245.2 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.

The value of the carbon trading opportunity is assessed as at 28 February 2018 at:

\$226,000 plus GST (if any)

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 (2018) 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 2018" 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 2018, as achieved at the ports in Gisborne, Napier, Wellington and Port Chalmers. 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	494
Update area	494
Advance date one year	503
Update yields	503
Update costs	695
Update log prices	695
Update discount rate	695
Tree crop value this year	695

Area changes, if any, are mainly the result of harvesting and minor remapping of the stocked area during the year, as advised by FMNZ.

Table 2: Reasons for area change since last year

Area change (ha)	Reason
0.0	No change

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 administration and insurance have risen this year. The harvest-related costs of logging and road construction 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 all radiata sawlogs have increased this year, while prices for pulp grades have remained relatively flat.

The discount rate applied in this valuation is unchanged from last year. Evidence from recent forest transactions suggest that purchasers are continuing to apply similar discount rates in deriving tree crop values.

Harvest revenue

Based on the assumptions adopted for the purpose of this valuation, the owner of Roxburgh forest is projected to receive a total net stumpage revenue of approximately \$ 4,835,000 in year 2053.

This projected stumpage revenue is expressed in 2018 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)



ERIN JEFFREY

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-imburement 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.

Roxburgh Forest Partnership

Financial Statements for the Year Ended 28 February 2018

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**MARKHAMS WAVERLEY LIMITED
CHARTERED ACCOUNTANTS
WAVERLEY**

Roxburgh Forest Partnership

Statement of Total Profit/Loss & Other Comprehensive Income For the Year Ended 28 February 2018

	<u>Feb 2018</u>	<u>Feb 2017</u>	<u>Budget</u>
	\$	\$	\$
<u>Operating Revenue</u>			
Interest Received	48	62	60
<u>Forest Expenses</u>			
Management & Supervision Fees	2,889	2,419	2,709
<u>Operating Expenses</u>			
Accountancy Fees	2,735	2,695	2,735
Administration	2,220	4,320	4,320
Audit Fees	1,575	1,575	1,575
Bank Fees	103	113	60
Compliance	4,288	-	3,839
Depreciation for Period	4,910	5,604	4,910
Emission Trading Scheme	-	23	300
Legal Expenses	19	48	600
Meeting Costs	362	392	350
Repairs & Maintenance - Fences	-	1,040	-
Statutory Supervisor	1,437	1,092	1,500
Subscriptions - Forest Health, Research, Kyoto	614	9	470
Sundry Expenses	302	302	2,000
Valuation - Forest	464	375	580
Weed & Pest Control	-	-	1,000
	19,028	17,588	24,239
<u>Standing Charges</u>			
Insurance - Public Liability	530	416	488
Insurance - Plantations	8,319	6,804	6,897
Rates	1,497	1,482	1,512
	10,346	8,702	8,897
<u>Total Expenses</u>	32,263	28,709	35,845
<u>Profit/(Loss) for Tax Purposes</u>	(32,214)	(28,647)	(35,785)
Fair Value Movement -			
Plantation Revaluation Increase (Decrease)	201,000	(94,000)	-
<u>Net Surplus/(Deficit) for Year</u>	168,786	(122,647)	(35,785)
Comprehensive Income	-	-	-
<u>Total Comprehensive Income</u>	\$168,786	(\$122,647)	(\$35,785)

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

Roxburgh Forest Partnership

Statement of Changes in Equity For the Year Ended 28 February 2018

	<i><u>Note</u></i>	<i><u>Capital Accounts</u></i>	<i><u>Retained Earnings</u></i>	<i><u>2018 Total</u></i>
Equity as at 1 March 2017		1,650,959	(856,547)	794,412
Total Comprehensive Income		0	168,786	168,786
Total Contributions From Partners		26,400	-	26,400
Total Transactions with Owners		26,400	-	26,400
Equity as at 28 February 2018		<u>1,677,360</u>	<u>(687,761)</u>	<u>989,599</u>

	<i><u>Capital Accounts</u></i>	<i><u>Retained Earnings</u></i>	<i><u>2017 Total</u></i>
Equity as at 1 March 2016	1,630,799	(733,900)	896,899
Total Comprehensive Income	0	(122,647)	(122,647)
Total Contributions From Partners	20,160	-	20,160
Total Transactions with Owners	20,160	-	20,160
Equity as at 28 February 2017	<u>1,650,960</u>	<u>(856,547)</u>	<u>794,413</u>

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

Roxburgh Forest Partnership

Statement of Financial Position As at 28 February 2018

	<u>Note</u>	<u>Feb 2018</u> \$	<u>Feb 2017</u> \$
<u>Current Assets</u>			
Calls in Arrears		54	27
Cash and Cash Equivalents	4	355	3,105
Goods & Services Tax		<u>576</u>	<u>1,102</u>
		986	4,234
<u>Non Current Assets</u>			
<u>Plantations</u>	5		
Plantation Value		494,000	588,000
Revaluation for Year		<u>201,000</u>	<u>(94,000)</u>
	6	695,000	494,000
<u>Property, Plant and Equipment</u>	7		
Land		257,172	257,172
Land Improvements		<u>36,441</u>	<u>41,351</u>
		293,613	298,523
<u>Total Assets</u>		<u>989,598</u>	<u>796,757</u>
<u>Less Liabilities</u>			
<u>Current Liabilities</u>			
Accounts Payable		-	1,218
Calls in Advance		-	<u>1,126</u>
		-	2,344
<u>Total Net Assets</u>		<u>\$989,598</u>	<u>\$794,412</u>
Represented by:			
<u>Equity</u>			
Capital Contributions per Schedule		1,677,360	1,650,960
Retained Earnings		<u>(687,762)</u>	<u>(856,548)</u>
		<u>\$989,598</u>	<u>\$794,412</u>

_____ Partner

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

Roxburgh Forest Partnership

Cashflow Statement For the Year Ended 28 February 2018

	<u><i>Note</i></u>	<u><i>Feb 2018</i></u> \$	<u><i>Feb 2017</i></u> \$
<u>Cash Flows from Operating Activities</u>			
Cash was provided from:			
Interest Received		48	62
Goods & Services Tax		<u>526</u>	<u>-</u>
		574	62
Cash was applied to:			
Operating Expenses		28,571	22,236
Goods & Services Tax		<u>-</u>	<u>147</u>
		28,571	22,384
Net Cash inflow (outflow) from operating activities	8	<u>(27,997)</u>	<u>(22,321)</u>
<u>Cash Flows from Financing Activities</u>			
Cash was provided from:			
Calls on Participatory Securities		<u>25,247</u>	<u>21,286</u>
Net cash inflow (outflow) from financing activities	8	25,247	21,286
Net increase (decrease) in cash held		<u>(2,750)</u>	<u>(1,035)</u>
Cash at Start of Year		<u>3,105</u>	<u>4,140</u>
Cash at End of Year		<u><u>\$355</u></u>	<u><u>\$3,105</u></u>

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

Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

	<u>Feb 2018</u>	<u>Feb 2017</u>
	\$	\$
4. CASH AND CASH EQUIVALENTS		
B N Z Current Account	355	3,105
	<u>\$355</u>	<u>\$3,105</u>

The B N Z Bank holds a registered first mortgage over the property.

5. **PLANTATION DETAILS**

The plantation is comprised of Douglas Fir trees planted in the Central Otago District. The Net Stocked Area of approximately 245 hectares was planted in 2003 (224ha) and 2006 (21ha). The forest is a consumable immature biological asset.

	<u>Feb 2018</u>	<u>Feb 2017</u>
	\$	\$
<u>Reconciliation of Net Stocked Area</u>		
Opening Net Stocked Area (Approx.)	245	245
Less Area Harvested	-	-
Less Windthrow & Area Recalculation	-	-
Closing Net Stocked Area (Approx.)	<u>245</u>	<u>245</u>

6. **PLANTATION REVALUATIONS**

Valuer

The plantation was valued as at 28 February 2018 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.

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The financial statements of Roxburgh Forest Partnership have been prepared in accordance with the Financial Reporting Act 2013. The partnership is applying Tier 1 reporting standards.

These financial statements were authorised for issue by the partners on the 22 June 2017.

Segmental Reporting

The entity operates in the forestry industry at locations in the South 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.

New Zealand dollars are Roxburgh Forest Partnership functional and presentational currency.

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 Roxburgh Forest Partnership has voluntarily entered the Emission Trading Scheme ("ETS") in relation to 245 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.

Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

- 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 13 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 Roxburgh Forest Partnership is that of Afforestation. The partnership grows douglas fir for the purpose of selling the harvest between 2028 & 2048.

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

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 production thin at age of 25, second at age of 35 and a clearfell age of 45 has been assumed for the majority of the douglas fir crops. 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 douglas fir log prices used in the valuation have been derived from prices paid at the South Island ports over the past three years. An exception to this is the douglas fir domestic pulp price, which has been derived from the three year average price (averaged to February 2018) as reported by MPI. They range from \$50 to \$133 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 and expressed in New Zealand dollars.

- i Tending costs vary with the age of the trees and depending on the rate of growth. The projected age of the pre-harvest inventory is two years prior to clearfell at this point the harvest plan can be prepared which forms the basis of specific costings for the harvest. Prior to the pre-harvest inventory and harvest plan being prepared tending costs used in the valuation represents an average across all crop costs and may differ when a pre-harvest inventory and harvest plan is completed.
- ii Annual costs for insurance, forest management and other costs have been expressed in dollars per hectare over the whole estate. Costs may vary from forest to forest depending upon a number of forest related management factors.
- iii Clearfell harvest costs are defined as all costs from stump to price point defined as at wharf or mill gate. They include costs for logging and loading, road and skid formation, harvest management and cartage. Costs are based on current average contract costs. Some of these costs vary depending on the size and volume per hectare harvested.
- iv Logging and loading costs are based on harvest operations in the South Island over the past year. These costs vary widely depending upon location of forest, terrain, and existing roading access. An average logging and loading cost is calculated for each crop type based on the proportion of area by terrain class. The estimate of the proportion of the area in each terrain class has been made by PF Olsen staff during the site visit carried out at the feasibility stage.
- v Road and skid formation costs have been re-assessed this year using a consistent basis across all forests. PF Olsen carried out detailed assessment of road formation costs for a representative sample of four forests. This assessment used topographic maps, together with information collected during the field inspections. The modelling uses an average per hectare cost however the actual costs could differ when a pre-harvest inventory and harvest plan is carried out.
- vi Harvest management costs are set at an average price for all crop types. This is based on

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

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. Cartage distances are taken from the original feasibility reports. Until a pre-harvest inventory and harvest plan is completed, including where the logs will be sold, this cost could vary. Any significant change in costings or forest yield would affect the fair value of the plantation.

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 6.5% (2017 - 6.5%) (the equivalent pre-tax discount rate is 8.9%) 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 - 2017 Year</u>			
Cost - March 2003	372,212	-	372,212
Accumulated Depreciation	(68,085)	(5,604)	(73,689)
Net Book Value	<u>304,127</u>	<u>(5,604)</u>	<u>298,523</u>
<u>Land and Improvements - 2018 Year</u>			
Cost - March 2003	372,212	-	372,212
Accumulated Depreciation	(73,689)	(4,910)	(78,599)
Net Book Value	<u>298,523</u>	<u>(4,910)</u>	<u>293,613</u>

The latest capital value set by Quotable Value for rating purposes in September 2016 was \$598,000

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

	<u>Feb 2018</u>	<u>Feb 2017</u>
	\$	\$
8. CASH FLOW RECONCILIATION		
<u>Reconciliation of Cash Flows from Operating Activities.</u>		
Reported Surplus for Year	168,786	(122,647)
Non Cash Item - Depreciation	4,910	5,604
Non Cash Item - Forest Revaluation	<u>(201,000)</u>	<u>94,000</u>
	(27,304)	(23,043)
Movements in Working Capital:		
(Increase)/Decrease in Accounts Receivable	-	-
Increase/(Decrease) in Accounts Payable	(1,218)	869
(Increase)/Decrease in GST	<u>526</u>	<u>(147)</u>
	(692)	721
Net Cash Flow from Operating Activities	<u>(\$27,997)</u>	<u>(\$22,321)</u>
<u>Reconciliation of Cash Flows from Financing Activities</u>		
Calls on Participatory Securities	26,400	20,160
(Increase)/Decrease in Calls in Arrears	(27)	-
Increase/(Decrease) in Calls in Advance	<u>(1,126)</u>	<u>1,126</u>
Net Cash Flow from Financing Activities	<u>\$25,247</u>	<u>\$21,286</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.

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Financial Risk Strategy

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

Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

10. EVENTS AFTER BALANCE DATE

There have been no significant events after balance date.

11. EMISSIONS TRADING SCHEME

Roxburgh Forest Trustee Limited has replaced Corporate Trust Limited as trustee holding the Partnership land as registered proprietor in trust for the Partnership. Roxburgh Forest Trustee Limited holds 6,654 NZUs (2017 - 6,654) 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 28 February 2018 is \$139,202 (2017 - \$118,109)

During the year, 0 NZU's were sold.

	<u>Feb 2018</u>	<u>Feb 2017</u>
	No.	No.
Opening Units Held	6,654	6,654
Emissions Trading Units Sold	-	-
Emissions Trading Units Surrendered	-	-
Emissions Trading Units Allocation	-	-
Closing Units Held	<u>6,654</u>	<u>6,654</u>

12. CAPITAL COMMITMENTS & OPERATING LEASES

There are no capital commitments, biological asset commitments nor operating leases as at balance date (2017 nil).

13. CONTINGENT ASSETS & CONTINGENT LIABILITIES

There were no contingent assets nor contingent liabilities as at balance date (2017 nil).

14. RELATED PARTIES

The partnership paid administration fees of \$2,220 (2017 - \$4,320) and management fees and forest expenses of \$2,889 (2017 - \$4,005) 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 \$0 (2017 - \$1,218). No related party debts have been written off or forgiven during the year.

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

15. 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

Roxburgh 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 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 2017.

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2018

16. PARTNERSHIP STRUCTURE

Partners have subscribed for Partnership Interests in the Partnership. The number of Partnership Interests 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 Partnership Interests 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 31 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.

17. 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.

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Roxburgh Forest Partnership

IRD No 085-999-338

Statement of Changes in Equity For the Year Ended 28 February 2018

	Balance 2017	Calls for Year	Sales Entries	Profit or Loss	Closing Balance	Share of Tax Loss
Allardice Investments Limited	17,551	281	-	-	17,831	(329)
Ames, P and Congalton, J	17,198	275	-	-	17,473	(322)
Argosy Forests Limited	19,491	312	-	-	19,802	(365)
Aton, J	17,106	274	-	-	17,379	(320)
Lambie, KJ and Doig, AE as Trustees	51,593	825	-	-	52,418	(966)
Blemph Properties Limited	17,198	275	-	-	17,473	(322)
BPC Forestry Pty Limited	34,395	550	-	-	34,945	(644)
Cailliau, R	17,198	275	-	-	17,473	(322)
Coffin, M F	68,790	1,100	-	-	69,890	(1,289)
Cole, D & K	17,198	275	-	-	17,473	(322)
Crozier Forestry Limited	34,395	550	-	-	34,945	(644)
Dave Goult Trees Limited	34,395	550	-	-	34,945	(644)
Dovedale Forest Limited	17,198	275	-	-	17,473	(322)
Fallow Forestry Limited	52,643	842	-	-	53,484	(986)
Fulton Forest Limited	17,198	275	-	-	17,473	(322)
Gaur, P C	19,491	312	-	-	19,802	(365)
Glynn, K M	20,761	332	-	-	21,093	(389)
Harrison Family Forest Limited	68,790	1,100	-	-	69,890	(1,289)
B & E Hicks Partnership	21,784	348	-	-	22,132	(408)
Hunt, D & S as Trustees	18,257	292	-	-	18,549	(342)
In Great Company Limited	17,198	275	-	-	17,473	(322)
J & M Trees Limited	35,092	561	-	-	35,653	(657)
McCafferty, J & O as Trustees	68,790	1,100	-	-	69,890	(1,289)
Jufich Investments Limited	34,395	550	-	-	34,945	(644)
Knight Forest Limited	68,790	1,100	-	-	69,890	(1,289)
Laupen Investments Limited	17,198	275	-	-	17,473	(322)
Longstaff Enterprises Limited	34,395	550	-	-	34,945	(644)
Marovani Forest Limited	103,185	1,650	-	-	104,835	(1,933)
Mckenna, L J	17,551	281	-	-	17,831	(329)
Meyer, M	17,198	275	-	-	17,473	(322)
Mills, G N	17,551	281	-	-	17,831	(329)
Moodie, T	17,198	275	-	-	17,473	(322)
Moonwalkers Limited	17,198	275	-	-	17,473	(322)
North'South Forests Limited	17,885	286	-	-	18,171	(335)
Omundsen, T as authorised agent	17,198	275	-	-	17,473	(322)
Omundsen, T as authorised agent	17,198	275	-	-	17,473	(322)
Paddison, A & S	51,593	825	-	-	52,418	(966)
Robinson, R as Trustee	34,395	550	-	-	34,945	(644)
Shaukat, R & F & S & S	68,790	1,100	-	-	69,890	(1,289)
Sligo, F X	17,198	275	-	-	17,473	(322)
Miller, N as Trustee	34,395	550	-	-	34,945	(644)
Thow Forestry Investments Limited	68,790	1,100	-	-	69,890	(1,289)
Makora Forest Investments Limited	17,198	275	-	-	17,473	(322)
Tui Grange Limited	34,395	550	-	-	34,945	(644)
White, J P G	17,198	275	-	-	17,473	(322)
Whittaker Family Trust Limited as Trustees	17,198	275	-	-	17,473	(322)
Whittle, C	17,198	275	-	-	17,473	(322)
Wilkins, P D	17,198	275	-	-	17,473	(322)
William Martin Family Ltd Partnership	85,988	1,375	-	-	87,363	(1,611)
Zimmerman - Roxburgh LLC	34,395	550	-	-	34,945	(644)
Zoll, L G & Z M	34,395	550	-	-	34,945	(644)
Roger Dickie No 31 Limited - see Note 16	-	-	-	-	-	(1,289)
	1,650,960	26,400	-	-	1,677,360	(32,214)
Retained Earnings	(856,548)	-	-	168,786	(687,762)	
Total Equity	794,412	26,400	-	168,786	989,598	

2018 year is a LOSS for Tax Purposes

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