



Forest Partnership Report

April 2019

Greetings!

We are entering exciting times for forest owners as the next age class of our forests come into the harvesting process. Log prices remain buoyant, underpinned by strong demand from our exporters and with future price predictions looking positive. Our forest managers are very busy and have taken on three additional staff over the year, and continue to hire as this harvest and planting period builds.

As with all industry in New Zealand, the forestry sector is struggling to scale up and recruit and retain enough crews to harvest and transport our logs. In some instances, we know of brand-new logging trucks (worth \$650,000) sitting in the transport operators' yards without any drivers. Skilled operators for harvest crews are in the same high demand. One long term forest participant said to me "there will be no wall of wood, because we lack the infrastructure to handle all our forest harvest requirements at once and so the harvest period will be extended".

Because of the demand supply issues we have seen cartage and log harvest prices rise significantly; until more plant and personnel are deployed I cannot see these prices falling.

Log Markets

A recent report passed through the United Nations on the demand for forestry products. It predicts, that as the world increasingly moves towards a more sustainable resource base, the demand for forestry products will double by 2040. I recall forecasts made by Wink Sutton (a Tangoio forest partnership investor and a legend in New Zealand post war forestry research); around the turn of the century Wink did a lot of research on long term demand and future projections for wood, he predicted rising demand and rising prices for our logs. He maintains that this demand still exists, but perhaps is ten years behind his prediction. We can only hope that these predictions continue to play out moving forwards. Certainly, we are seeing a much more social and environmentally sustainable emphasis in both use and demand for renewable timber resources and investment into these asset classes.

2018 saw the largest volume of wood harvested in NZ in a calendar year. The latest numbers put roundwood removals at 36.09 million m3, climbing 2.08 million m3 or 6% above the previous calendar year record set in 2017. The extra logs are being moved straight onto the export market. In the year-to-Q4 2018, 60% of the total harvest was export logs, having never exceeded 57% at the same point any prior year.

According to PF Olsen; at wharf gate (AWG) prices for logs delivered to ports around New Zealand decreased on average NZD \$7 per JASm3 in April. This decrease in AWG prices is due to a combination of increased shipping costs and uncertainty in the China log market. While the demand for logs is at record levels, there is an imbalance between log and domestic wholesale prices. There are log vessels en route to China from New Zealand without confirmed Letters of Credit (LCs) and Chinese log buyers are using this opportunity to try and negotiate log prices down.

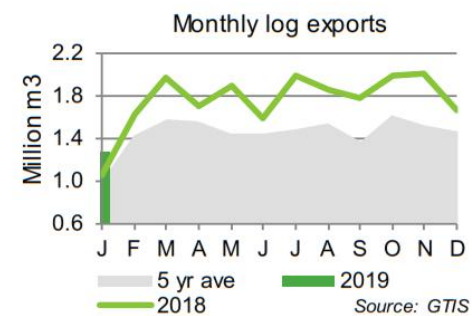
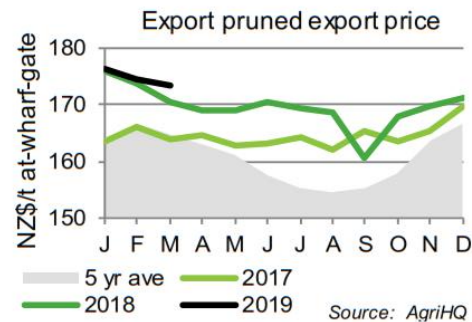
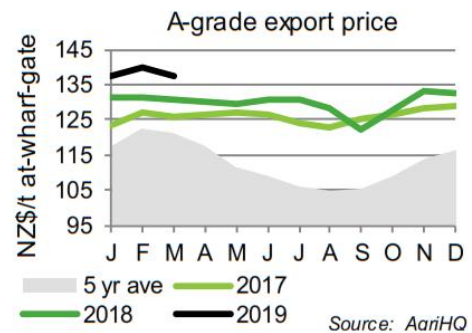
The domestic market for logs has continued the very stable start to 2019. On average, mills report sawn timber sales up about 5% on last year. Increases in consents for new dwellings continue to be dominated by the North Island cities, with consent numbers in the South Island down on this time last year.

Due to the drop in the AWG log prices the PF Olsen Log Price Index for April decreased \$3 to \$131. The index is currently \$2 above the two-year average, \$5 above the three-year average, and \$13 higher than the five-year average.

Harvesting

Last year saw the completion of harvest for our two forests in South Taranaki; and in Hawkes Bay we have seven forests currently harvesting and 15 forests currently constructing roads in preparation for harvest. 2019 is going to see many more forests start their road construction and some more forests will start their harvest. Our harvest volumes have grown from 400,000JAS in 2017 to 700,000JAS this year and are expected to rise to just over 1,000,000JAS next year – that's enough logging trucks to park nose to tail from Wellington to Whangarei!!

Regarding budgeting as your forest enter the harvest cycle. The forest managers have made estimates on the cost of road lining your forests. Nearer to harvest you will be given a forecast cashflow for the harvest cycle of your forest. We need to reiterate that every effort has been made to ensure these forecasts are as accurate as possible, however there are a number of variables that remain outside our control and affect prices and harvest timing – no two forests are the same.



Carbon and the Emissions Trading Scheme

The government has finally outlined some changes to the Emissions Trading Scheme (ETS). Forestry Minister Shane Jones and Climate Change Minister James Shaw announced a second set of changes to the Emission Trading Scheme (ETS) as part of broader reforms to make the scheme fit-for-purpose.

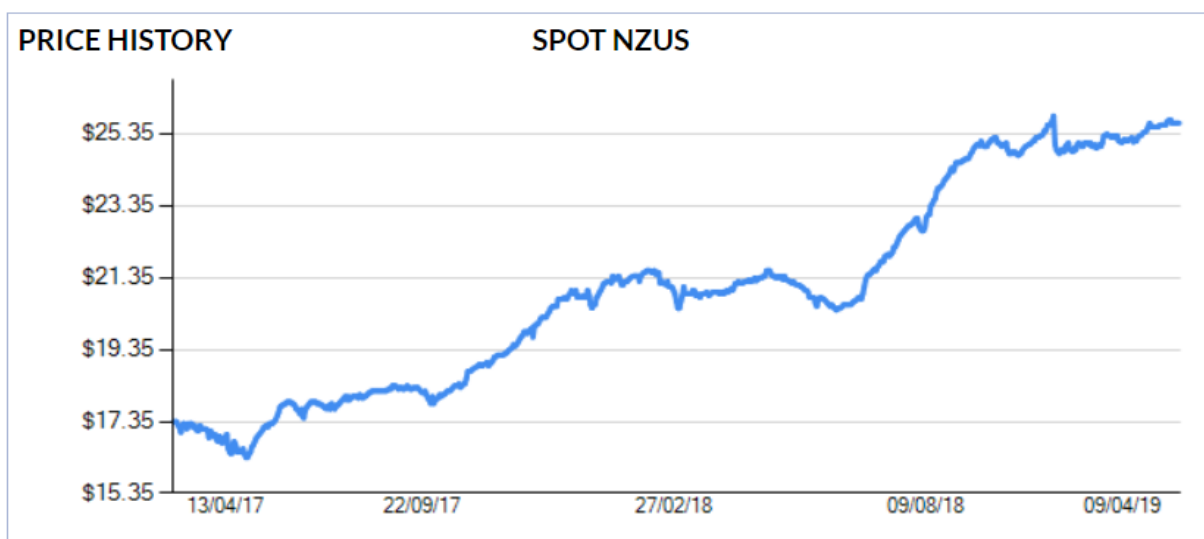
“This announcement includes the introduction of averaging accounting for all forests registered from January 1 2021 and the option to use the new accounting method for all forests registered in 2019 and 2020,” Shane Jones said.

“By taking a long-term view of the amount of carbon in a production forest, averaging means forest owners will be able to trade more carbon (NZUs) at lower risk, and not have to worry about finding units to repay when they harvest.” A good quality greenfields forest venture will be able to sequester and sell up to 500 tonne of NZU’s (\$12,500 at today’s prices) per ha over the first 18 years under carbon averaging. This will not need to be paid back provided the forest is replanted after harvest.

These changes are only relevant for new forests planted on farmland. We are still waiting on release of documents outlining how (if at all) it will affect our existing forests. You will recall that we are continuing to fund the operating expenses from our forests from the free arbitrage carbon credits we were able to secure some years ago.

The carbon averaging scheme is good for greenfield foresters but also good for New Zealand Inc as it more easily allows the government to meet their emission reduction targets under worldwide climate change agreements.

The carbon price currently sits at the cap, with a review of this cap due in May this year. Some officials have suggested the cap will be progressively raised.



Forest Growers Levy

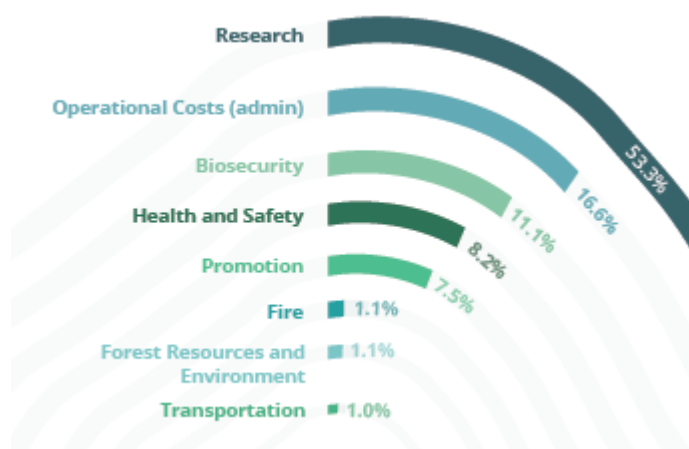
Forest owners voted in 2013 for all plantation forest owners to contribute to a fund that would support the expanding plantation forest industry.

The first levy vote was in 2013 and set the levy for six years with a levy range of 27c to 30c per harvested tonne of wood. The current levy is 27c.

In its first year the levy revenue was around \$7.9m and in 2017 it was just over \$9m. The graphic below shows the breakdown of where the money is spent.

There is a second levy vote this month which will decide whether the levy will continue for another six years, and with an increase in levy range of 24c to 33c to provide additional flexibility if required.

As the money raised benefits all our forests we will be voting on behalf of the partnerships to continue the levy.



Public relations

My view is that more money needs to be spent on promotion, with the increased harvest it is reasonable to assume the levy collection will rise significantly. We now live in a different political environment where we have government decisions heavily influenced by opinion poll and social media. I feel the forest industry has been remiss in not standing up and enunciating clearly and repeatedly the good our forests do for the environment.

The very well televised Tolaga Bay flooding and forest debris damage incident (June 2018) is a case in point. In my opinion Forestry leaders put their head in the sand and made little comment. The house owner featured on TV was living in an illegal house on a flood plain. That flood plain had been protected from damaging and silt bearing floods for 28 years by the forests planted in that catchment. Just the same as farmers are now busy fencing their streams foresters will make changes to try and mitigate debris movement when massive storm events happen. The major intensity of the Tolaga Bay storm was isolated and resulted in 50 to 60 mm of rain falling in one hour after a period of heavy rain for the preceding two days, under this deluge nothing stops movement on the slopes.

Replanting and Second Rotation

Once harvest begins in a forest the partners will begin to receive harvest income. A small part of the income will be used to replant the harvested area on an annual basis, progressive planting takes place in order to ensure the forest doesn't revert to weeds thereby losing its value. Towards the end of harvest, the partners will get an opportunity to vote for the future of the forest i.e. they will vote to either continue the forest for a second rotation or sell the newly planted forest.

If the majority of partners vote to stay in for a second rotation, we will structure the second rotation a little differently in that it will be pre-funded. That is, the partners will leave some proceeds from harvest in the partnership. This will be deposited in an interest-bearing bank account and drawn on each year to cover

management and holding costs, so if there are no major unforeseen expenses incurred there will be no share calls for the next rotation.

This idea is finding favour with investors as they do not want to commit their beneficiaries to having to make future contributions.

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 i.e. immediately after replanting and we will facilitate the sale of those Partnership Interests.



A load of logs out of our Putere Block headed to the Napier Port.

The Nelson fires

2,300 ha of pine forest were destroyed in the Nelson fires, the largest in New Zealand for many years; we understand 60 % of the destroyed forest owned by an overseas company were not insured.

FENZ (Fire and Emergency New Zealand). Apparently, all costs incurred with a fire are now covered by FENZ. The industry has significant concerns about how this government mandated organisation was going to work and how it would be funded. There was discussion on a levy based on area or forest value. This could have become very expensive for forest owners. In the meantime, we understand decisions on the funding of FENZ have been postponed to 2020

Because there is some doubt as to just what FENZ covers and what it doesn't we have maintained some fire cover in our forest insurance policy.

The final washup of the Nelson fires will provide more information as to just what FENZ covers.

Rail Transport of Logs

Kiwi Rail is slowly but steadily increasing its capacity for log cartage in all our areas. The Wairoa to Napier line is about to open again and Kiwi Rail have proposals to move logs from Wairoa south; it remains to be seen whether this is cost effective for us or not.

In my mind it is a great pity that the rail is not opened through to Gisborne as we need competition between ports. Gisborne is a small port but much more efficient at log export than Napier.

Napier Port IPO

We made submissions to the Napier Regional Council at the end of last year around the proposed new wharf upgrade at Napier. Mostly, when a cruise ship comes into the port, log loading operations have to cease, and the log ship has to leave the port so that the cruise ship can get in and out. As you can imagine this causes significant delays and inefficiencies for the log loading operations – all of which lead to increased costs for us as forest owners. 70 cruise ships came into Napier this year and we already know there are 90 next summer and 102 the summer following. We are working with our exporters to drive efficiencies here, and to ensure the port is not treating log exporters as second tier customers. The new wharf extension is not going to be completed until 2022.

Richard (Wal) Bourne Retirement

After 24 years of service Wal has finally decided it time to retire. We're very grateful for Wal's diligence and dedication to serving you and your forests. He remains an active investor so will be a regular face at the meetings, and hopefully able to provide support to the team from retirement mode when needed.

For the last two years Wal has been working reduced hours and imparting wisdom onto Grant, so it's business as usual in the office.

Not only will Wal be greatly missed by all the staff, but also many of you that he has got to know so well over the years.



Granity 1996 – Carlsberg 2018

Jeff Dickie joins the team

I am very pleased that my second son Jeff has now joined the business. Jeff completed a forestry degree and then had 12 years as a director of global markets division of ANZ. He is excited to continue growing the longstanding and successful family forestry investment business as well as establishing new initiatives for investment in commercial property assets. Jeff and Will are attending this year's AGMS.

Future Forestry Investment Opportunity

With carbon averaging now confirmed for greenfields properties, and the outlook for forestry and timber products continuing its positive trajectory, we are in the process of finalising offer documents for new forest investment opportunities.

To register your interest and receive priority information please call or email Grant or the investment team. (invest@rogerdickie.co.nz)

Regards



Roger Dickie



Will Dickie

29 March 2019

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 2019 at:

\$949, 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 and any associated harvest roading. 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.

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 6.0%. 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 (2019) 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 2019" 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. Projected yields have been calibrated to actual harvest yields where available. The timing of future clearfelling has been aligned with harvest plans reported by FMNZ where these exist.

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 2019, as achieved at the ports in Gisborne, Napier and Wellington. 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	695
Update area	695
Advance date one year	849
Update yields, clearfell age	849
Update costs	936
Update log prices	936
Update discount rate	949
Tree crop value this year	949

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 are the result of new yield tables introduced during the past year. These new yields have been calibrated to actual harvest yields from forests within the estate administered by Roger Dickie (NZ) Ltd. Planned clearfell ages have been reduced from 28 to 26, on average, based on harvest plans from FMNZ.

The costs for local authority rates 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 has been reduced from 6.5% to 6.0% to align with market evidence from recent forest transactions.

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 \$ 5,831,000 in year 2053.

This projected stumpage revenue is expressed in 2019 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)



ANDREW CLARKE

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 2019

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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 2019

	<u>Feb 2019</u> \$	<u>Feb 2018</u> \$	<u>Budget</u> \$
<u>Operating Revenue</u>			
Interest Received	106	48	60
<u>Forest Expenses</u>			
Management & Supervision Fees	-	2,889	2,060
<u>Operating Expenses</u>			
Accountancy Fees	2,790	2,735	2,790
Administration	3,000	2,220	3,000
Audit Fees	1,575	1,575	1,595
Bank Fees	103	103	60
Compliance	876	4,288	672
Depreciation for Period	4,307	4,910	4,307
Emission Trading Scheme	378	-	300
Legal Expenses	55	19	600
Meeting Costs	1,083	362	-
Statutory Supervisor	1,500	1,437	1,500
Subscriptions - Forest Health, Research, Kyoto	812	614	470
Sundry Expenses	305	302	2,303
Valuation - Forest	159	464	465
Weed & Pest Control	-	-	1,000
	16,944	19,028	19,062
<u>Standing Charges</u>			
Insurance - Public Liability	583	530	610
Insurance - Plantations	2,364	8,319	8,909
Rates	1,508	1,497	1,376
	4,455	10,346	10,895
<u>Total Expenses</u>	21,400	32,263	32,017
<u>Profit/(Loss) for Tax Purposes</u>	(21,293)	(32,214)	(31,957)
Fair Value Movement -			
Plantation Revaluation Increase (Decrease)	254,000	201,000	-
<u>Net Surplus/(Deficit) for Year</u>	232,707	168,786	(31,957)
Comprehensive Income	-	-	-
<u>Total Comprehensive Income</u>	\$232,707	\$168,786	(\$31,957)

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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 2019

	<i><u>Note</u></i>	<i><u>Capital Accounts</u></i>	<i><u>Retained Earnings</u></i>	<i><u>2019 Total</u></i>
Equity as at 1 March 2018		1,677,359	(687,761)	989,598
Total Comprehensive Income		0	232,707	232,707
Total Contributions From Partners		34,992	-	34,992
Total Transactions with Owners		34,992	-	34,992
Equity as at 28 February 2019		<u>1,712,351</u>	<u>(455,054)</u>	<u>1,257,297</u>

	<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>

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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 2019

	<u>Note</u>	<u>Feb 2019</u> \$	<u>Feb 2018</u> \$
<u>Current Assets</u>			
Calls in Arrears		54	54
Cash and Cash Equivalents	4	18,396	355
Goods & Services Tax		991	576
		<u>19,442</u>	<u>986</u>
<u>Non Current Assets</u>			
<u>Plantations</u>	5		
Plantation Value		695,000	494,000
Revaluation for Year		<u>254,000</u>	<u>201,000</u>
	6	949,000	695,000
<u>Property, Plant and Equipment</u>	7		
Land		257,172	257,172
Land Improvements		<u>32,134</u>	<u>36,441</u>
		289,306	293,613
<u>Total Assets</u>		<u>1,257,747</u>	<u>989,598</u>
<u>Less Liabilities</u>			
<u>Current Liabilities</u>			
Calls in Advance		450	-
<u>Total Net Assets</u>		<u>\$1,257,297</u>	<u>\$989,598</u>
Represented by:			
<u>Equity</u>			
Capital Contributions per Schedule		1,712,352	1,677,360
Retained Earnings		<u>(455,055)</u>	<u>(687,762)</u>
		<u>\$1,257,297</u>	<u>\$989,598</u>

Roger Dickie

William Dickie

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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 2019

	<u>Note</u>	<u>Feb 2019</u> \$	<u>Feb 2018</u> \$
<u>Cash Flows from Operating Activities</u>			
Cash was provided from:			
Interest Received		106	48
Goods & Services Tax		-	526
		<u>106</u>	<u>574</u>
Cash was applied to:			
Operating Expenses		17,093	28,571
Goods & Services Tax		415	-
		<u>17,508</u>	<u>28,571</u>
Net Cash inflow (outflow) from operating activities	8	<u>(17,401)</u>	<u>(27,997)</u>
<u>Cash Flows from Financing Activities</u>			
Cash was provided from:			
Calls on Participatory Securities		35,442	25,247
Net cash inflow (outflow) from financing activities	8	<u>35,442</u>	<u>25,247</u>
Net increase (decrease) in cash held		<u>18,041</u>	<u>(2,750)</u>
Cash at Start of Year		355	3,105
Cash at End of Year		<u>\$18,396</u>	<u>\$355</u>

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2019

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 25 June 2019.

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.

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2019

- 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 2019

	<u>Feb 2019</u>	<u>Feb 2018</u>
	\$	\$
4. CASH AND CASH EQUIVALENTS		
B N Z Current Account	18,396	355
	<u>\$18,396</u>	<u>\$355</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 2019</u>	<u>Feb 2018</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 2019 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:

- Future Yields are forecast.
- Log prices are attached and harvest costs deducted to arrive at projected harvest revenues.
- Projected clearfell revenues are reduced to account for attrition.
- Future costs are added.
- The effect of taxation is modelled from a purchaser's perspective.
- The resulting post-tax cashflow is discounted at the nominal discount rate. This generates a Net Present Value (NPV) by stand and by forest.

The stand has a negative NPV after the discounting, as above. 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 2019

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 2019) 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 current industry efficient costs for management of similar sized operations.

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Notes to the Financial Statements For the Year Ended 28 February 2019

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 6.0% (2018 - 6.5%) (the equivalent pre-tax discount rate is 8.1%) 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.

Quantitative Information About Unobservable Inputs

Average weighted stumpage is estimated at \$ per hectare based on the expected log volumes and types.

Annual expenditure is based on the current estimate of the costs to be incurred with reference to prior costs incurred and the remaining silviculture program.

The discount rate used to derive the fair value is 15% pre-tax.

Inter-relationship With Fair Value Measurement

The estimated fair value would increase (decrease) if the average weighted stumpage was higher (lower).

The estimated fair value would increase (decrease) if the estimated annual expenditure was lower (higher).

The estimated fair value would increase (decrease) if the discount rate was lower (higher).

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Notes to the Financial Statements For the Year Ended 28 February 2019

7. PROPERTY, PLANT AND EQUIPMENT

	Opening Value	Additions/ Deletions	Closing Value
<u>Land and Improvements - 2018 Year</u>			
Cost - March 2003	372,212	-	372,212
Accumulated Depreciation	<u>(73,689)</u>	<u>(4,910)</u>	<u>(78,599)</u>
Net Book Value	<u>298,523</u>	<u>(4,910)</u>	<u>293,613</u>
 <u>Land and Improvements - 2019 Year</u>			
Cost - March 2003	372,212	-	372,212
Accumulated Depreciation	<u>(78,599)</u>	<u>(4,307)</u>	<u>(82,906)</u>
Net Book Value	<u>293,613</u>	<u>(4,307)</u>	<u>289,306</u>

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

8. CASH FLOW RECONCILIATION

	<u>Feb 2019</u> \$	<u>Feb 2018</u> \$
<u>Reconciliation of Cash Flows from Operating Activities.</u>		
Reported Surplus for Year	232,707	168,786
Non Cash Item - Depreciation	4,307	4,910
Non Cash Item - Forest Revaluation	<u>(254,000)</u>	<u>(201,000)</u>
	(16,986)	(27,304)
Movements in Working Capital:		
(Increase)/Decrease in Accounts Receivable	-	-
Increase/(Decrease) in Accounts Payable	-	(1,218)
(Increase)/Decrease in GST	<u>(415)</u>	<u>526</u>
	<u>(415)</u>	<u>(692)</u>
Net Cash Flow from Operating Activities	<u>(\$17,401)</u>	<u>(\$27,997)</u>
 <u>Reconciliation of Cash Flows from Financing Activities</u>		
Calls on Participatory Securities	34,992	26,400
(Increase)/Decrease in Calls in Arrears	-	(27)
Increase/(Decrease) in Calls in Advance	<u>450</u>	<u>(1,126)</u>
Net Cash Flow from Financing Activities	<u>\$35,442</u>	<u>\$25,247</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.

Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2019

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 and cashflow from the sale of surplus carbon units held. The financial assets risks are being managed in accordance with normal procedures. BNZ and Covenant Trustees are being used for cash balances which are regularly being monitored.

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.

Financial Risk Strategy

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

10. EVENTS AFTER BALANCE DATE

There have been no significant events subsequent to 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 16,189 NZUs (2018 - 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 2019 is \$404,725 (2018 - \$139,202)

During the year, 0 NZU's were sold and 9,535 NZU's were allocated. None of the remaining units are able to be sold without liability to re-purchase on harvest.

	<u>Feb 2019</u>	<u>Feb 2018</u>
	No.	No.
Opening Units Held	6,654	6,654
Emissions Trading Units Sold	-	-
Emissions Trading Units Surrendered	-	-
Emissions Trading Units Allocation	9,535	-
Closing Units Held	<u>16,189</u>	<u>6,654</u>

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2019

12. CAPITAL COMMITMENTS & OPERATING LEASES

There are no capital commitments, biological asset commitments nor operating leases as at balance date (2018 nil).

13. CONTINGENT ASSETS & CONTINGENT LIABILITIES

There were no contingent assets nor contingent liabilities as at balance date (2018 nil).

14. RELATED PARTIES

The partnership paid administration fees of \$3,000 (2018 - \$2,220) and management fees and forest expenses of \$435 (2018 - \$2,889) 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 (2018 - \$0). No related party debts have been written off or forgiven during the year.

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.

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Roxburgh Forest Partnership

Notes to the Financial Statements For the Year Ended 28 February 2019

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.

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 2019

	Balance 2018	Calls for Year	Sales Entries	Payouts	Closing Balance	Share of Tax Loss
Allardice Investments Limited	17,831	372	-	-	18,203	(217)
Ames, P and Congalton, J	17,473	365	-	-	17,837	(213)
Argosy Forests Limited	19,802	413	-	-	20,215	(241)
Aton, J	17,379	363	-	-	17,742	(212)
Lambie, KJ and Doig, AE as Trustees	52,418	1,094	-	-	53,511	(639)
Blemph Properties Limited	17,473	365	-	-	17,837	(213)
BPC Forestry Pty Limited	34,945	729	-	-	35,674	(426)
Cailliau, R	17,473	365	-	-	17,837	(213)
Coffin, M F	69,890	1,458	-	-	71,348	(852)
Cole, D & K	17,473	365	-	-	17,837	(213)
Crozier Forestry Limited	34,945	729	-	-	35,674	(426)
Dave Goult Trees Limited	34,945	729	-	-	35,674	(426)
Dovedale Forests Limited	17,473	365	-	-	17,837	(213)
Fallow Forestry Limited	53,484	1,116	-	-	54,600	(652)
Fulton Forest Limited	17,473	365	-	-	17,837	(213)
Gaur, P C	19,802	413	-	-	20,215	(241)
Glynn, K M	21,093	440	-	-	21,533	(257)
Harrison Family Forest Limited	69,890	1,458	-	-	71,348	(852)
B & E Hicks Partnership	22,132	462	-	-	22,594	(270)
Hunt, D & S as Trustees	18,549	387	-	-	18,936	(226)
In Great Company Limited	17,473	365	-	-	17,837	(213)
J & M Trees Limited	35,653	744	-	-	36,397	(434)
McCafferty, J & O as Trustees	69,890	1,458	-	-	71,348	(852)
Jufich Investments Limited	34,945	729	-	-	35,674	(426)
Knight Forest Limited	69,890	1,458	-	-	71,348	(852)
Laupen Investments Limited	17,473	365	-	-	17,837	(213)
Longstaff Enterprises Limited	34,945	729	-	-	35,674	(426)
Marovani Forest Limited	104,835	2,187	-	-	107,022	(1,278)
Mckenna, L J	17,831	372	-	-	18,203	(217)
Meyer, M	17,473	365	-	-	17,837	(213)
Mills, G N	17,831	372	-	-	18,203	(217)
Moodie, T	17,473	365	-	-	17,837	(213)
Moonwalkers Limited	17,473	365	-	-	17,837	(213)
North South Forests Limited	18,171	379	-	-	18,550	(221)
Omundsen, T as authorised agent	17,473	365	-	-	17,837	(213)
Omundsen, T as authorised agent	17,473	365	-	-	17,837	(213)
Paddison, A & S	52,418	1,094	-	-	53,511	(639)
Robinson, R as Trustee	34,945	729	-	-	35,674	(426)
Shaukat, R & F & S & S	69,890	1,458	-	-	71,348	(852)
Sligo, F X	17,473	365	-	-	17,837	(213)
Miller, N as Trustee	34,945	729	-	-	35,674	(426)
Thow Forestry Investments Limited	69,890	1,458	-	-	71,348	(852)
Makora Forest Investments Limited	17,473	365	-	-	17,837	(213)
Tui Grange Limited	34,945	729	-	-	35,674	(426)
White, J P G	17,473	365	-	-	17,837	(213)
Whittaker Family Trust Limited as Trustees	17,473	365	-	-	17,837	(213)
Whittle, C	17,473	365	-	-	17,837	(213)
Wilkins, P D	17,473	365	-	-	17,837	(213)
William Martin Family Ltd Partnership	87,363	1,823	-	-	89,185	(1,065)
Zimmerman - Roxburgh LLC	34,945	729	-	-	35,674	(426)
Zoll, L G & Z M	34,945	729	-	-	35,674	(426)
Roger Dickie No 31 Limited - see Note 16	-	-	-	-	-	(852)
	1,677,360	34,992	-	-	1,712,352	(21,293)
Retained Earnings	(687,762)	232,707	-	-	(455,055)	-
Total Equity	989,598	267,699	-	-	1,257,297	

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