Roxburgh Update 10/4/18

Hello,

At the AGM last year partners recommended that the real estate market be investigated for Roxburgh forest.

Following is a discussion document; I welcome all feedback via email, phone or attendance at the meeting. After this years meeting we will put forward a resolution based on the feedback from this discussion.

See italics below from the 2017 minutes.

***"REPORTS AND FINANCIAL ACCOUNTS** The reports from Roger Dickie, Forest Management (NZ) Ltd, PF Olsen's 2017 Tree Crop Valuation and the 2017 Draft Financial Statements were tabled and discussed. The meeting discussed the P F Olsen tree crop valuation as the advance one year value is minimal relative to cost increases. Douglas-fir being slow growing the trees are not at this stage growing fast enough to keep up with costs. The meeting recommended that the real estate market again be investigated. (Comment - this will be done in the Spring) Roger Dickie advised that the audited financial statements will be distributed at the AGM and in the unlikely event there are any changes from the draft accounts, partners will be advised."*

Testing the Real Estate Market:

We have had two indications on what a sale price might be. We have been in discussion with Carbon Farming who presented an offer of $706,000 to buy the land and trees. This offer is still available and as noted by the Carbon Farming people an open indication on which to negotiate. They are looking for long term ownership to offset their current carbon leasing portfolio. They do not have any desire to lease the Forest for Carbon.

We have approached the local real estate agent that sold the neighbouring Onslow Forest. He has indicated the following:

Further to our last conversation, I have had people expressing an interest in purchasing this block and this is only through me making some enquiries as to its value, and without actually taking to the market at all. As mentioned, indications are the block would be in the $1.2M to $1.3m range, but I would suggest a sale by public tender, if you decide to take it to the market to extract the best value.

Where are we up to?

As per the most recent draft financial statements, partners have invested $1,677,360 to purchase, establish and manage the forest. Individual partners have had the use of tax losses against personal income.

Annual running costs consist mainly of insurance ($8,849), accountancy and audit ($2,735) and ($1,575). There was a one off larger compliance cost ($4,288) to cover legal bills from the previous financial year to transition the scheme to operate under the new Financial Market Conducts Act (FMCA). The forest managers have visited once at the request of partners ($2,889) and our administration fee ($2,220) which we stopped charging after 6 months to ensure the account wasn't overdrawn.

Roxburgh Forest Partnership

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

	Feb 2018 $	Feb 2017 $	Budget $
Operating Revenue			
Interest Received	48	62	60
Forest Expenses			
Management & Supervision Fees	2,889	2,419	2,709
Operating Expenses			
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
Standing Charges			
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
Total Expenses	32,263	28,709	35,845

Other than cancelling the insurance there is little else we can do to minimise annual running costs of the forest.

According to QV the land is valued at $598,000 and the last tree crop valuation came back at $494,000 in 2017. The valuation for this year for the tree crop has increased $201,000 although this is partially inflated around an increase in the notional land rental figure, which is then reflected in how the forest value is derived.

As the existing tree crop gets older the discounted revenue at maturity will outweigh the discounted future costs, and the value will rise.

Where to from here - what are my thoughts ?

This was always a long term investment, with harvest not forecast for another 35 year in 2053.

I am ambivalent on the future of Roxburgh, on one hand I certainly don't want to see investors get back less than they have invested in the forest since 2003 but perhaps we should consider cutting our losses. On the other hand we have a well established albeit reduced net stocked area of Douglas-fir that will continue to grow and will definitely produce an asset of value in the future.

If we are to continue the investment, I don't think it would be feasible to have the forest uninsured (eliminating our major annual expenditure). I think the risk of fire is too great in the tussock country. We have made every effort to keep operating costs to a minimum. We do not need windthrow insurance as it is not a problem with Douglas Fir, however, we have been unable to find more competitive fire only insurance.

If we continue the investment then the annual expenses will continue to be around $25,000 or approximately $102 per ha for the 245 ha.

A realistic sales price might only be $1,000,000 after estate agent fees. This would equate to partners receiving $10,000 per 1% share

I would welcome your comments via email and phone so that we can get the mood of the investors and bring forward a resolution. Emails can be directed to myself or Richard, Will and Grant.

In summary. I probably think we should stick in there for another three years or so and review the situation.

Regards

Roger Dickie