Forest Partnership Report

20th April 2018

Hello,

Its 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.

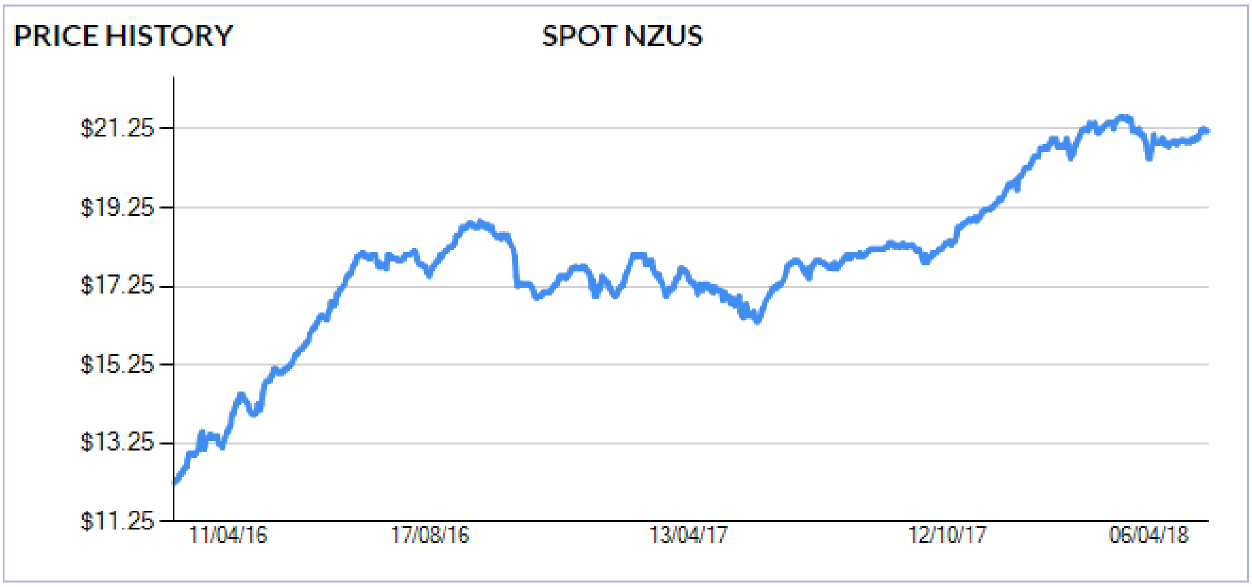
FMNZ have been very busy as more of our forests move into the harvesting phase and a number of our forests have begun road lining (making new roads for harvest) and preparing for their main harvest in a year or two. The growing harvest volumes have put a real strain on forest harvest and transport infrastructure 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

We have been enjoying sustained higher log prices in Waikare. You will recall when we began harvesting back in February 2015 that we had a couple of tough months with stumpages dipping to $8,000 per hectare. We are currently sitting at $26,297 which is substantially above our forecast return of $16,202. I hope you have enjoyed the returns from Waikare. The forest managers advise we are still a few months from completing harvest, with final payments to come after that. I look forward to seeing you at the meeting.

Carbon Update

Waikare has sold most of their Pre 1990 allocation of NZUS for a price of $18.56. The carbon information below is not directly related to Waikare 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.



Log Markets

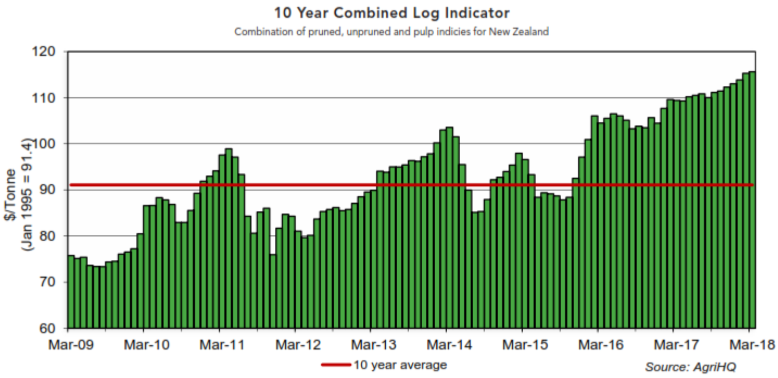
I think AgriHQ summed up the export market best at the moment, when they stated that 2018 is off to a flying start.

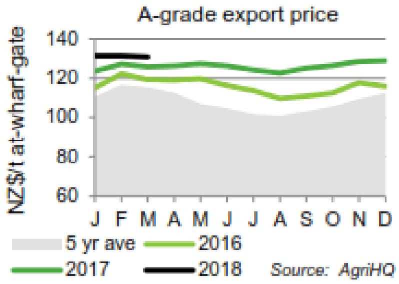
The country shipped a record 18.8 million cubic metres of softwood logs overseas in 2017, up 18 percent on 2016, with exports to China jumping 29 percent and accounting for three-quarters of the total.

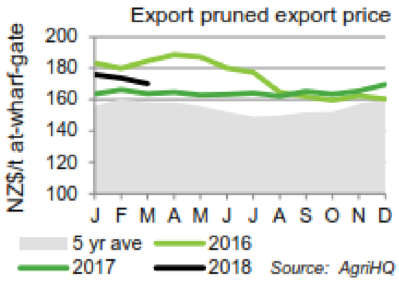
This is on the back of the Chinese Government clamping down on harvesting its own forests. It's also good news in India, Japan and South Korea when volumes are also up substantially. This all bodes well for the coming year.

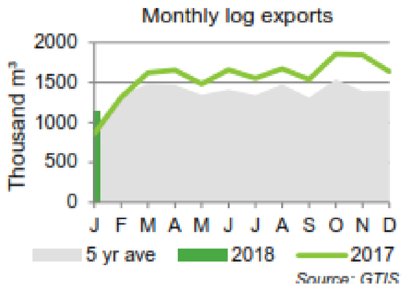
As the ten year combined log indicator graph shows the increased log prices are certainly welcomed as we begin the main thrust of our forest harvest.

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.

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

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.

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

Roger Dickie

WAIKARE
Forest Partnership

FMNZ
MAXIMISING YOUR FOREST VALUE

Forest Managers Report March 2018

The past six months has seen a continuation of unpredictable weather patterns. Over the summer months, Taranaki/Whanganui had a drought while Hawkes Bay was the recipient of regular rainfall. January 2018 was the hottest month on record in New Zealand with most areas experiencing higher than usual temperatures over the spring and summer months. Cyclones Fehi, Gita and Hola have crossed the country and fortunately, caused no serious damage to any of the forests we manage.

The bi-annual forest health inspection, formerly organised by the New Zealand Forest Owners Association, will no longer be continued. The programme, now funded by the Forest Growers Levy, has changed to a risk based focus. For now, this means the majority of the biosecurity monitoring is transferred to urban areas as the model shows it is the urban areas where the main biosecurity risk lies. As the risk model is developed, this approach may be re-evaluated in the future.

Some companies have chosen to continue with the forest health monitoring however, they now bear the full cost of this work. They have decided to continue with the forest inspections to help enable them to meet their obligations under the FSC (Forest Health Stewardship) certification and because they are not convinced the urban based approach is appropriate for their estates.

Given that our staff visit the forest regularly and we are not FSC certified, there is no real need to continue with the surveillance programme. Our staff quickly identify forest health issues and if they are uncertain as to the cause of ill thrift, send foliage samples away for analysis. From our point of view, it would be difficult to justify the ongoing cost of forest health surveillance.

The clearfell harvest operation at Waikare is ongoing. This is reported on separately.

We intend to replant approximately 125 hectares of the cutover area this winter. This area has been aerially desiccated in preparation. We expect the planting will be carried out in July and the releasing in October.

At the beginning of September 2017, NZUs were worth $18.25. By the end of the month they had fallen below $18. The price steadily increased and by mid February 2018, the market recorded a new record high of $21.55. At the end of February, the NZU price was $20.90.

We continue to sell down the pre 1990 units. Over the past financial year we have sold 14,137 units. The average price achieved was $18.84 and post commission $18.56.

This leaves Waikare Forest holding 2,624 pre 1990 units which we will sell over the next few weeks.

Steve Bell
Forest Manager

On the job repairs

Along the boundary
on a narrow ridge

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20 March 2018

Silks Audit Chartered Accountants
PO Box 7144
Wanganui 4541

Waikare Forest - Tree crop valuation

As requested, we have assessed the fair value of the tree crop assets at Waikare forest owned by Waikare 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:

$1,362, 000 plus GST (if any)

The current productive net stocked area is estimated at 306.8 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.

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	3,680
Update area	1,155
Advance date one year	1,231
Update yields	1,231
Update costs	1,072
Update log prices	1,362
Update discount rate	1,362
Tree crop value this year	**1,362**

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
34.6	Clearfell/ replant

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 Waikare forest is projected to receive a total net stumpage revenue of approximately $ 8,198,000 in year 2041.

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-imbursement 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.

Waikare Forest Partnership

Financial Statements
for the Year Ended 28 February 2018

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CHARTERED ACCOUNTANTS
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Waikare Forest Partnership

Forestry

Accountant's Compilation Report

For the Year Ended 28 February 2018

Compilation Report to Waikare Forest Partnership

Scope:
On the basis of information you provided we have compiled, in accordance with "Service Engagement Standard No.2: Compilation of Financial Information", the financial statements of Waikare Forest Partnership for the period ended 28 February 2018 as set out in the following pages. These have been prepared in accordance with the basis of accounting described in Note 1 to the financial statements.

Responsibilities:
You are solely responsible for the information contained in the financial statements and have determined that the basis of accounting used is appropriate to meet your needs and for the purpose that the financial statements were prepared.

The financial statements were prepared exclusively for your benefit. Neither we nor any of our employees accept any responsibility for the information from which the financial statements have been prepared. Further, the financial statements have been prepared at the request of and for your purposes only, and neither we nor any of our employees accept any responsibility on any grounds whatsoever, including liability of negligence, to any other person.

No audit or review engagement undertaken:
Our procedures use accounting expertise to undertake the compilation of the financial statements from information you have provided. Our procedures do not include verification or validation procedures. No audit or review has been performed and accordingly no assurance is expressed.

Markhams Waverley Limited
Chartered Accountants
Waverley

18 April 2018

Waikare Forest Partnership

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

	Feb 2018 $	Feb 2017 $	Budget $
HARVESTING ACCOUNT			
Harvesting Revenue			
Log Proceeds	7,992,174	13,269,885	4,424,117
Less Cost of Sales			
Harvesting Costs	2,213,210	3,473,699	2,338,848
Cartage	1,659,570	3,014,754	-
Forest Grower Levy	15,075	27,739	-
Management Fee	319,671	530,795	-
Temporary Roading & Maintenance	771,913	1,290,161	-
	4,979,438	8,337,149	2,338,848
Gross Profit from Harvesting	3,012,736	4,932,736	2,085,269
Other Operating Revenue			
Interest Received	3,453	3,927	675
Honey Income	12,000	-	12,000
	15,453	3,927	12,675
Net Operating Revenue for Period	$3,028,189	$4,936,663	$2,097,944

Note: This Statement must be read in conjunction with the accompanying Notes and the Accountant's Compilation Report.

Waikare Forest Partnership

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

	Feb 2018 $	Feb 2017 $	Budget $
Net Operating Revenue for Period	3,028,189	4,936,663	2,097,944
Forest Expenses			
Planting & Blanking - Labour	74,550	54,614	131,750
Planting & Blanking - Trees	60,433	45,288	13,500
Releasing - Labour	6,000	13,800	39,624
Releasing - Chemical	43,876	16,727	-
Pre-Plant Preparation	12,150	-	21,177
Fire Control	265	261	-
Management & Supervision Fees	25,636	35,415	37,211
	222,910	166,104	243,262
Operating Expenses			
Accountancy Fees	2,735	2,695	2,735
Administration	4,440	4,320	4,070
Bank Fees	104	125	146
Depreciation for Period	37,453	24,733	37,453
Feasibility Costs	9,600	-	-
Legal Expenses	19	48	19
Mapping	1,020	-	-
Meeting Costs	-	392	523
Repairs & Maintenance - Fences	75	-	75
Subscriptions - Forest Health, Research, Kyoto	629	36	604
Sundry Expenses	-	624	2,000
Valuation - Forest	464	375	464
Weed & Pest Control	3,035	1,617	2,700
	59,573	34,965	50,789
Standing Charges			
Insurance - Public Liability	530	416	488
Insurance - Plantations	13,860	7,118	7,217
Rates	2,616	2,635	2,843
	17,006	10,169	10,548
Total Expenses	299,489	211,237	304,599
Net Operating Surplus for Period	2,728,700	4,725,426	1,793,345
Fair Value Movement			
Plantation Revaluation Increase (Decrease)	(2,318,000)	1,623,000	-
Net Surplus/(Deficit)for Year	410,700	6,348,426	1,793,345
Comprehensive Income	-	-	-
Total Comprehensive Income	$410,700	$6,348,426	$1,793,345

Waikare Forest Partnership

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

	Note	*Capital Accounts*	*Retained Earnings*	*2018 Total*
Equity as at 1 March 2017		0	5,037,700	5,037,700
Total Comprehensive Income		2,728,700	(2,318,000)	410,700
Total Contributions From Partners		(1,268,922)	-	(1,268,922)
Total Transactions with Owners		(1,268,922)	-	(1,268,922)
Equity as at 28 February 2018		1,459,778	2,719,700	4,179,478

	Capital Accounts	*Retained Earnings*	*2017 Total*
Equity as at 1 March 2016	1,218,587	3,165,830	4,384,417
Total Comprehensive Income	4,476,556	1,871,870	6,348,426
Total Contributions From Partners	(5,695,143)	-	(5,695,143)
Total Transactions with Owners	(5,695,143)	-	(5,695,143)
Equity as at 28 February 2017	0	5,037,700	5,037,700

Waikare Forest Partnership

Statement of Financial Position
As at 28 February 2018

	Note	Feb 2018	Feb 2017
		$	$
Current Assets			
Calls in Arrears		27	27
Accounts Receivable		187,409	628,040
Cash and Cash Equivalents	3	1,706,975	266,061
		1,894,410	894,128
Non Current Assets			
Plantations	4		
Plantation Value		3,680,000	2,057,000
Revaluation for Year		(2,318,000)	1,623,000
	5	1,362,000	3,680,000
Property, Plant and Equipment	6		
Land & Buildings		1,116,100	1,116,100
Less Pre-1990 NZU's Received and Sold as compensation		(262,267)	-
Land Improvements		149,814	187,267
		1,003,647	1,303,367
Total Assets		4,260,057	5,877,495
Less Liabilities			
Current Liabilities			
Accounts Payable		-	545,821
Goods & Services Tax		80,579	293,973
		80,579	839,795
Total Net Assets		$4,179,478	$5,037,700
Represented by:			
Equity			
Capital Contributions per Schedule		1,459,778	-
Retained Earnings		2,719,700	5,037,700
		$4,179,478	$5,037,700

__________________ Partner

Note: This Statement must be read in conjunction with the accompanying Notes and the Accountant's Compilation Report.

Waikare Forest Partnership

Cashflow Statement
For the Year Ended 28 February 2018

	Note	Feb 2018	Feb 2017
		$	$
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		3,453	3,927
Honey Income		12,000	-
Operating Income		8,432,805	13,265,181
Goods & Services Tax		-	27,144
		8,448,258	13,296,253
Cash was applied to:			
Operating Expenses		5,787,296	7,538,493
Goods & Services Tax		213,394	-
		6,000,690	7,538,493
Net Cash inflow (outflow) from operating activities	7	2,447,569	5,757,759
Cash Flows from Investing Activities			
Cash was provided from:		-	-
NZU Pre 1990 Units Sold		(262,267)	-
Cash was applied to:			
Purchase of Property, Plant and Equipment		-	212,000
Net cash inflow (outflow) from investing activities		262,267	(212,000)
Cash Flows from Financing Activities			
Cash was provided from:			
Payouts to Partners		1,268,922	5,695,142
Net cash inflow (outflow) from financing activities	7	(1,268,922)	(5,695,142)
Net increase (decrease) in cash held		1,440,914	(149,383)
Cash at Start of Year		266,061	415,444
Cash at End of Year		$1,706,975	$266,061

Note: This Statement must be read in conjunction with the accompanying Notes and the Accountant's Compilation Report.

Waikare 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 Waikare Forest Partnership, which is a Partnership registered under the Partnership Act 1908.

The financial statements of Waikare Forest Partnership are for a scheme registered under the Financial Markets Conduct Act 2013, and that these financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013. The partnership is applying Tier 1 reporting standards.

These financial statements were authorised for issue by the partners on the 12 May 2017.

Segmental Reporting

The entity operates in the forestry industry at locations in the North 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 Waikare 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 Revenue on sales of goods is recognised when they are delivered and ready for use by the customer.

iv The entity is not a party to financial instruments with off balance sheet risk.

v 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.

vi 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.

vii For the purposes of the cashflow statement, cash includes cash on hand and deposits held at call with banks.

viii All taxable profits or losses are assessed to the partners of the partnership.

ix 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. **BUSINESS**

The principal activity of Waikare Forest Partnership is that of Afforestation. The partnership grows pinus radiata for the purpose of selling the harvest

Waikare Forest Partnership

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

	Feb 2018	*Feb 2017*
	$	$

3. **CASH AND CASH EQUIVALENTS**

B N Z Current Account	1,056,975	223,873
B N Z Deposit - Investment Fund	-	42,188
B N Z Term Deposit	650,000	-
	$1,706,975	$266,061

Deposit - Investment Fund
The deposit is available to fund any future obligation that Waikare Forest Partnership may assume under its arrangement with other partnerships in the Roger Dickie Group Investment Fund. Waikare Forest Partnership will contribute towards forest losses sustained by other partnerships and not covered by the Group Investment Fund.

4. **PLANTATION DETAILS**

The plantation is comprised of Pinus Radiata trees planted in the Wanganui District. The remaining Net Stocked Area is approximately 307 ha. 39ha planted in 1989, 7.6ha 2013 and 261ha in 2016-2018. The forest is s consumable immature biological asset.

	Feb 2018	*Feb 2017*
	$	$
Reconciliation of Net Stocked Area		
Opening Net Stocked Area (Approx.)	272	294
Less Area Harvested	(115)	(133)
Plus Area Planted	150	111
Less Windthrow & Area Recalculation	-	-
Closing Net Stocked Area (Approx.)	307	272

5. **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 Methodolgy
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.

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 clearfell age of 28 has been assumed for the majority of the radiata crops. Some small stands have been assigned other clearfell ages to coincide with the harvesting of larger neighbouring stands. 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 radiata pine log prices used in the valuation have been derived from prices paid at the Gisborne and Napier ports over the past three years. An exception to this is the radiata domestic pulp price, which has been derived from the three-year average price (averaged to February 2017) as reported by MPI. They range from $54 to $166 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 North 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.

vii Cartage costs are based on current actual contract rates. 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% 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.

6. PROPERTY, PLANT AND EQUIPMENT

	Opening Value	Additions/ Deletions	Closing Value
Land and Improvements - 2017 Year			
Cost	1,125,000	212,000	1,337,000
Accumulated Depreciation	(8,900)	(24,733)	(33,633)
Net Book Value	1,116,100	187,267	1,303,367
Land and Improvements - 2018 Year			
Cost - October 2008	1,337,000	(262,267)	1,074,733
Accumulated Depreciation	(33,633)	(37,453)	(71,086)
Net Book Value	1,303,367	(299,720)	1,003,647

The latest capital value set by Quotable Value for rating purposes in September 2015 was $1,350,000

	Feb 2018	Feb 2017
	$	$
7. CASH FLOW RECONCILIATION		
Reconciliation of Cash Flows from Operating Activities.		
Reported Surplus for Year	410,700	6,348,426
Non Cash Item - Depreciation	37,453	24,733
Non Cash Item - Forest Revaluation	2,318,000	(1,623,000)
	2,766,153	4,750,159
Movements in Working Capital:		
(Increase)/Decrease in Accounts Receivable	440,631	(4,704)
Increase(Decrease) in Prepayments	-	611,719
Increase/(Decrease) in Accounts Payable	(545,821)	373,441
(Increase)/Decrease in GST	(213,394)	27,144
	(318,584)	1,007,600
Net Cash Flow from Operating Activities	$2,447,569	$5,757,759

8. 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.

Financial Risk Strategy

The Partnership risk management strategy is to use a combination of 100% equity finance from the partners or revenue from interest received and the sale of carbon.

9. EVENTS AFTER BALANCE DATE

There have been no significant events after balance date.

10. EMISSIONS TRADING SCHEME

Waikare Forest Partnership has 2,624 NZUs being the second tranche of the pre 1990 free allocation. 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 $54,894 (2017 - $297,508)

As the land is classified as pre 1990 under the Climate Change Response Act (2002) there is a liability to either replant the forest or repay the emissions liability on deforestation.

11. CAPITAL COMMITMENTS & OPERATING LEASES

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

12. CONTINGENT ASSETS & CONTINGENT LIABILITIES

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

13. RELATED PARTIES

The partnership received harvesting receipts of $3,012,736 (2017 - $4,932,736) from Forest Management NZ Limited, in which R R Dickie, a partner, has a controlling interest. These transactions occurred on normal commercial terms and conditions. The amount outstanding at balance date was $187,409 (2017 - $628,040)

The partnership paid administration fees of $4,440 (2017 - $4,320) and management fees and forest expenses of $2,680,006 (2017 - $5,610,723) and forest harvest management fees of $319,671 (2017 - $530,795) 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 - $457). No related party debts have been written off or forgiven during the year.

14. 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

Waikare Forest Partnership is one of approximately 90 forests administered by Roger Dickie (NZ) Limited using a common forest manager, Forest Management (NZ) Limited (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 regularly.

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.

15. PARTNERSHIP STRUCTURE

Partners have subscribed for Partnership Interests in the Partnership. The number of Partnership Interests has been fixed at 200,000 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.

16. 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.

Waikare Forest Partnership

IRD No 051-665-716

Statement of Changes in Equity

For the Year Ended 28 February 2018

	EQUITY ACCOUNTS						TAX RETURN
	Balance 2017	Share of Profit	Sales Entries	RWT	Payouts	Closing Balance	Share of Tax Profit
Akoranga Education Trust	-	109,148	-	-	(50,757)	58,391	109,148
Austin, R A	-	21,830	-	-	(10,151)	11,678	21,830
Dickie, M M	-	163,722	-	-	(76,135)	87,587	163,722
Drummond, P S	-	109,148	-	-	(50,757)	58,391	109,148
Reid, Estate J S	-	54,574	-	-	(25,378)	29,196	54,574
Farag, M	-	81,861	-	-	(38,068)	43,793	81,861
Farag, N	-	81,861	-	-	(38,068)	43,793	81,861
Gillingham, M	-	109,148	-	-	(50,757)	58,391	109,148
Gower-James, N as Trustee.	-	54,574	-	-	(25,378)	29,196	54,574
Hall, J B	-	21,830	-	-	(10,151)	11,678	21,830
Higgs, M J	-	109,148	-	-	(50,757)	58,391	109,148
Holyoake Industries Limited as Trustees	-	251,040	-	-	(116,741)	134,300	251,040
Hope, U M	-	21,830	-	-	(10,151)	11,678	21,830
Hughes, D G	-	54,574	-	-	(25,378)	29,196	54,574
Hughes, Estate J M	-	54,574	-	-	(25,378)	29,196	54,574
Lavender, M S	-	81,861	-	-	(38,068)	43,793	81,861
Long, A C	-	21,830	-	-	(10,151)	11,678	21,830
Pakurakai Forest Limited	-	109,148	-	-	(50,757)	58,391	109,148
Patience, J A	-	120,063	-	-	(55,833)	64,230	120,063
Kalimantan Estates Limited	-	109,148	-	-	(50,757)	58,391	109,148
Piercy, A R	-	130,978	-	-	(60,908)	70,069	130,978
R W & S F Gardiner Limited	-	130,978	-	-	(60,908)	70,069	130,978
Reymann, U	-	81,861	-	-	(38,068)	43,793	81,861
Roger Dickie No 1 Limited	-	163,722	-	-	(76,135)	87,587	163,722
Scott, J W	-	109,148	-	-	(50,757)	58,391	109,148
Selderbeek, H	-	109,148	-	-	(50,757)	58,391	109,148
McEwen, C & I as Trustees	-	109,148	-	-	(50,757)	58,391	109,148
Wakefield, S J	-	21,830	-	-	(10,151)	11,678	21,830
Willis, J M D	-	130,978	-	-	(60,908)	70,069	130,978
	-	2,728,700	-	-	(1,268,922)	1,459,778	2,728,700
Retained Earnings	5,037,700	(2,318,000)	-	-	-	2,719,700	
Total Equity	5,037,700	410,700	-	-	(1,268,922)	4,179,478	

2018 year is a PROFIT for tax purposes

Note: This Statement must be read in conjunction with the accompanying Notes and the Accountant's Compilation Report.