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".

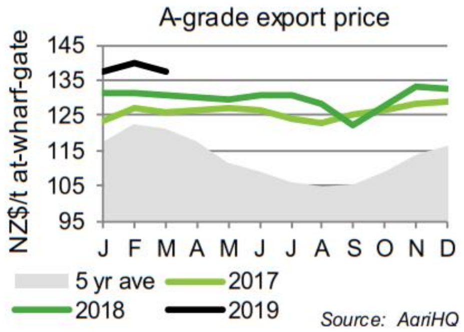
Because of the demand supply issues we have seen cartage and log harvest prices rise significantly; until more plant and personnel are deployed I cannot see these prices falling.

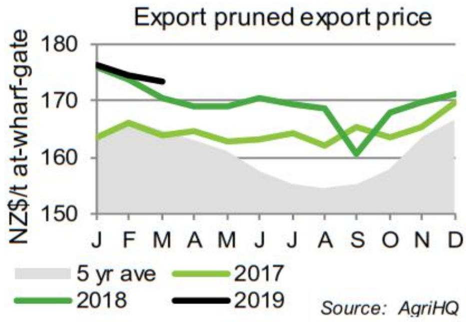
Log Markets

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.

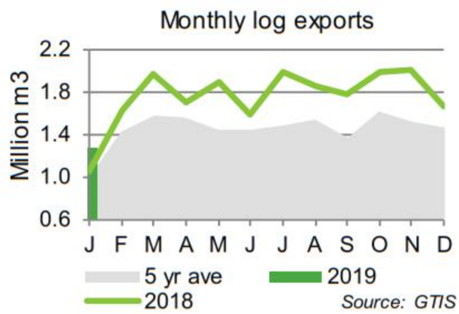
According to PF Olsen; at wharf gate (AWG) prices for logs delivered to ports around New Zealand decreased on average NZD $7 per JASm3 in April. This decrease in AWG prices is due to a combination of increased shipping costs and uncertainty in the China log market. While the demand for logs is at record 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.

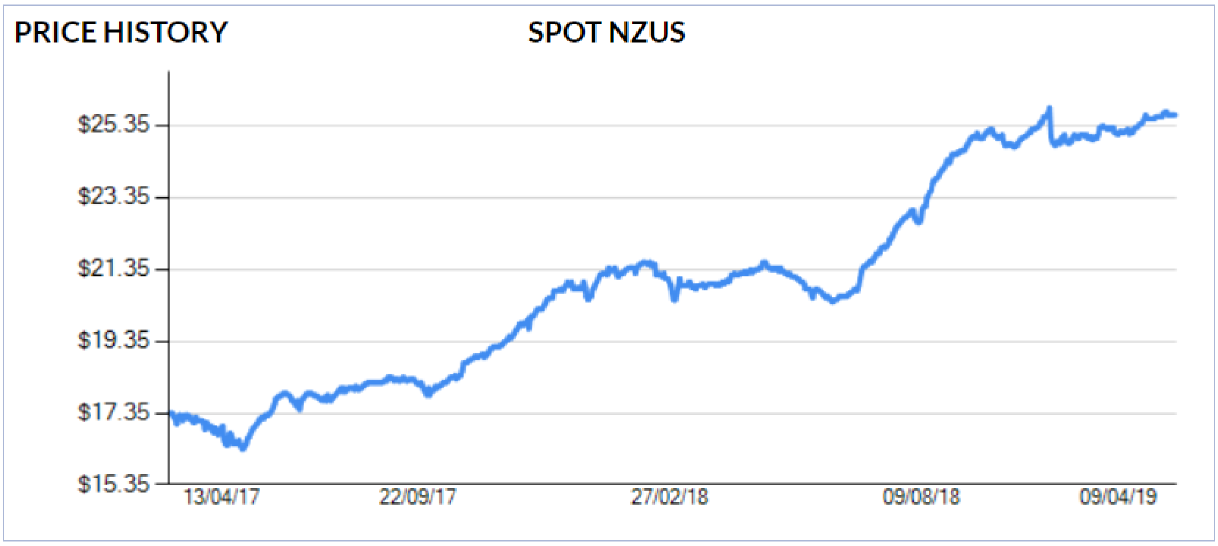
"This announcement includes the introduction of averaging accounting for all forests registered from January 1 2021 and the option to use the new accounting method for all forests registered in 2019 and 2020," Shane Jones said.

"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.



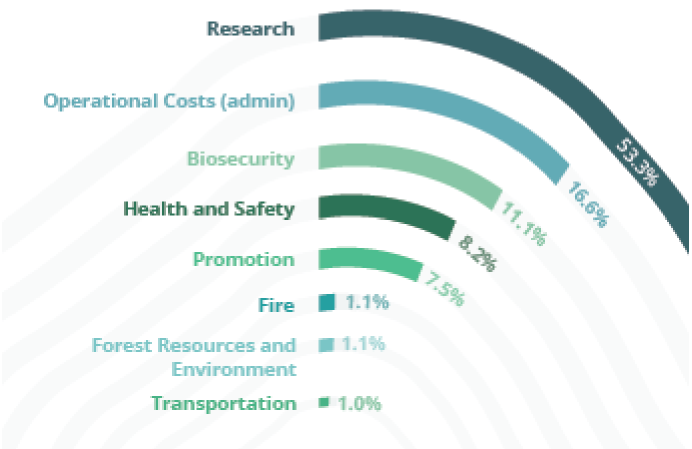
Forest Growers Levy

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 the 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

Granity 1996 – Carlsberg 2018

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.

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

PF Olsen Ltd
PO Box 1127 | Rotorua 3040 | New Zealand
P: 64 7 921 1010 | F: 64 7 921 1020
E: info@pfolsen.com | www.pfolsen.com

21 April 2019

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 2019 at:

$545, 000 plus GST (if any)

The current productive net stocked area is estimated at 388.9 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	1,362
Update area	494
Advance date one year	561
Update yields, clearfell age	573
Update costs	567
Update log prices	471
Update discount rate	545
Tree crop value this year	**545**

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
82.1	New planting

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 Waikare forest is projected to receive a total net stumpage revenue of approximately $ 9,436,000 in year 2043.

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-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 2019

Contents *Page*

MARKHAMS WAVERLEY LIMITED
CHARTERED ACCOUNTANTS
WAVERLEY

Waikare Forest Partnership

Forestry
Accountant's Compilation Report
For the Year Ended 28 February 2019

Compilation Report to the Partners of 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 2019 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

24 April 2019

Waikare Forest Partnership

Statement of Total Profit/Loss & Other Comprehensive Inc
For the Year Ended 28 February 2019

	Feb 2019 $	Feb 2018 $	Budget $
HARVESTING ACCOUNT			
Harvesting Revenue			
Log Proceeds	2,966,479	7,992,174	743,553
Less Cost of Sales			
Harvesting Costs	843,425	2,213,210	-
Cartage	672,247	1,659,570	-
Forest Grower Levy	5,630	15,075	-
Management Fee	118,659	319,671	-
Environmental Standards Expense	965	-	-
Temporary Roading & Maintenance	236,299	771,913	-
	1,877,225	4,979,438	-
Gross Profit from Harvesting	1,089,254	3,012,736	743,553
Other Operating Revenue			
Interest Received	44,872	3,453	60
Honey Income	15,000	12,000	-
	59,872	15,453	60
Net Operating Revenue for Period	$1,149,125	$3,028,189	$743,613

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 2019

	Feb 2019 $	*Feb 2018* $	*Budget* $
Net Operating Revenue for Period	1,149,125	3,028,189	743,613
Forest Expenses			
Planting & Blanking - Labour	62,666	74,550	82,500
Planting & Blanking - Trees	53,133	60,433	46,530
Releasing - Labour	18,128	6,000	37,500
Releasing - Chemical	27,774	43,876	-
Pre-Plant Preparation	15,702	12,150	52,500
Fire Control	300	265	-
Management & Supervision Fees	23,355	25,636	48,846
	201,057	222,910	267,876
Operating Expenses			
Accountancy Fees	3,560	2,735	3,560
Administration	5,516	4,440	4,536
Bank Fees	73	104	60
Depreciation for Period	29,963	37,453	29,963
Feasibility Costs	-	9,600	-
Legal Expenses	21	19	600
Mapping	-	1,020	-
Meeting Costs	330	-	650
Repairs & Maintenance - Fences	-	75	-
Repairs & Maintenance - Tracks & Dams	90	-	-
Subscriptions - Forest Health, Research, Kyoto	684	629	470
Sundry Expenses	89	-	2,000
Valuation - Forest	159	464	465
Weed & Pest Control	2,096	3,035	5,700
	42,581	59,573	48,004
Standing Charges			
Insurance - Public Liability	583	530	610
Insurance - Plantations	3,917	13,860	13,859
Rates	2,667	2,616	2,692
	7,167	17,006	17,161
Total Expenses	250,806	299,489	333,041
Net Operating Surplus for Period	898,319	2,728,700	410,572
Fair Value Movement			
Plantation Revaluation Increase (Decrease)	(817,000)	(2,318,000)	-
Net Surplus/(Deficit)for Year	81,319	410,700	410,572
Comprehensive Income	-	-	-
Total Comprehensive Income	$81,319	$410,700	$410,572

Waikare Forest Partnership

Statement of Changes in Equity
For the Year Ended 28 February 2019

	Note	*Capital Accounts*	*Retained Earnings*	*2019 Total*
Equity as at 1 March 2018		1,459,778	2,719,700	4,179,478
Total Comprehensive Income		898,319	(817,000)	81,319
Total Contributions From Partners		(999,020)	-	(999,020)
Total Transactions with Owners		(999,020)	-	(999,020)
Equity as at 28 February 2019		1,359,078	1,902,700	3,261,778

	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

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

Waikare Forest Partnership

Statement of Financial Position
As at 28 February 2019

	Note	Feb 2019	Feb 2018
		$	$
Current Assets			
Calls in Arrears		27	27
Accounts Receivable		-	187,409
Cash and Cash Equivalents	3	1,735,024	1,706,975
Goods & Services Tax		50,296	-
		1,785,348	1,894,410
Non Current Assets			
Plantations	4		
Plantation Value		1,362,000	3,680,000
Revaluation for Year		(817,000)	(2,318,000)
	5	545,000	1,362,000
Property, Plant and Equipment	6		
Land & Buildings		1,116,100	1,116,100
Less Pre-1990 NZU's Received and Sold as compensation		(303,564)	(262,267)
Land Improvements		119,851	149,814
		932,387	1,003,647
Total Assets		3,262,735	4,260,057
Less Liabilities			
Current Liabilities			
Accounts Payable		958	-
Goods & Services Tax		-	80,579
		958	80,579
Total Net Assets		$3,261,777	$4,179,478
Represented by:			
Equity			
Capital Contributions per Schedule		1,359,077	1,459,778
Retained Earnings		1,902,700	2,719,700
		$3,261,777	$4,179,478

__________________ Roger Dickie

__________________ William Dickie

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 2019

	Note	Feb 2019 $	Feb 2018 $
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		44,872	3,453
Honey Income		15,000	12,000
Operating Income		3,153,888	8,432,805
		3,213,760	8,448,258
Cash was applied to:			
Operating Expenses		2,097,111	5,787,296
Goods & Services Tax		130,876	213,394
		2,227,987	6,000,690
Net Cash inflow (outflow) from operating activities	7	985,773	2,447,569
Cash Flows from Investing Activities			
Cash was provided from:		-	-
NZU Pre 1990 Units Sold		(41,297)	(262,267)
Cash was applied to:			
Net cash inflow (outflow) from investing activities		41,297	262,267
Cash Flows from Financing Activities			
Cash was provided from:			
Payouts to Partners		999,020	1,268,922
Net cash inflow (outflow) from financing activities	7	(999,020)	(1,268,922)
Net increase (decrease) in cash held		28,050	1,440,914
Cash at Start of Year		1,706,975	266,061
Cash at End of Year		$1,735,025	$1,706,975

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 2019

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 10 May 2019.

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 2019

	Feb 2019	Feb 2018
	$	$

3. CASH AND CASH EQUIVALENTS

	Feb 2019 $	Feb 2018 $
B N Z Current Account	635,024	1,056,975
B N Z Term Deposit	1,100,000	650,000
	$1,735,024	$1,706,975

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 388.9 ha. 3.3ha planted in 1989, 5.2ha 2013 and 380.4ha in 2016-2018. The forest is a consumable immature biological asset.

	Feb 2019 $	Feb 2018 $
Reconciliation of Net Stocked Area		
Opening Net Stocked Area (Approx.)	307	272
Less Area Harvested	(35)	(115)
Plus Area Planted	120	150
Less Windthrow & Area Recalculation	(3)	-
Closing Net Stocked Area (Approx.)	389	307

5. 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 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 2019) as reported by MPI. They range from $54 to $186 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 6.0% 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).

6. PROPERTY, PLANT AND EQUIPMENT

	Opening Value	Additions/ Deletions	Closing Value
Land and Improvements - 2018 Year			
Cost	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
Land and Improvements - 2019 Year			
Cost - October 2008	1,074,733	(41,297)	1,033,436
Accumulated Depreciation	(71,086)	(29,963)	(101,049)
Net Book Value	1,003,647	(71,260)	932,387

The latest capital value set by Quotable Value for rating purposes in September 2018 was $1,350,000

7. CASH FLOW RECONCILIATION

	Feb 2019 $	*Feb 2018* $
Reconciliation of Cash Flows from Operating Activities.		
Reported Surplus for Year	81,319	410,700
Non Cash Item - Depreciation	29,963	37,453
Non Cash Item - Forest Revaluation	817,000	2,318,000
	928,282	2,766,153
Movements in Working Capital:		
(Increase)/Decrease in Accounts Receivable	187,409	440,631
Increase/(Decrease) in Accounts Payable	958	(545,821)
(Increase)/Decrease in GST	(130,876)	(213,394)
	57,491	(318,584)
Net Cash Flow from Operating Activities	$985,773	$2,447,569

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 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 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 subsequent to balance date.

10. EMISSIONS TRADING SCHEME

Waikare Forest Partnership has 618 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 2019 is $15,450 (2018 - $54,894)

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 (2018 nil).

12. CONTINGENT ASSETS & CONTINGENT LIABILITIES

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

13. RELATED PARTIES

The partnership received harvesting receipts of $3,012,736 (2018 - $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 $0 (2018 - $187,409)

The partnership paid administration fees of $5,516 (2018 - $4,440) and management fees and forest expenses of $2,714,845 (2018 - $2,680,006) and forest harvest management fees of $118,659 (2018 - $319,671) 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 $958 (2018 - $0). 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 2019

	EQUITY ACCOUNTS						TAX RETURN
	Balance 2018	Share of Profit	Sales Entries	RWT	Payouts	Closing Balance	Share of Tax Profit
Akoranga Education Trust	58,391	35,933	-	-	(39,961)	54,363	35,933
Austin, R A	11,678	7,187	-	-	(7,992)	10,873	7,187
Dickie, M M	87,587	53,899	-	-	(59,941)	81,545	53,899
Drummond, P S	58,391	35,933	-	-	(39,961)	54,363	35,933
Reid, Estate J S	29,196	17,966	-	-	(19,980)	27,182	17,966
Farag, M	43,793	26,950	-	-	(29,971)	40,772	26,950
Farag, N	43,793	26,950	-	-	(29,971)	40,772	26,950
Gillingham, M	58,391	35,933	-	-	(39,961)	54,363	35,933
Gower-James, N as Trustee.	29,196	17,966	-	-	(19,980)	27,182	17,966
Hall, J B	11,678	7,187	-	-	(7,992)	10,873	7,187
Higgs, M J	58,391	35,933	-	-	(39,961)	54,363	35,933
NBH Trustee Limited as Trustee	134,300	82,645	-	-	(91,910)	125,035	82,645
Hope, U M	11,678	7,187	-	-	(7,992)	10,873	7,187
Hughes, D G	29,196	17,966	-	-	(19,980)	27,182	17,966
Hughes, Estate J M	29,196	17,966	-	-	(19,980)	27,182	17,966
Lavender, M S	43,793	26,950	-	-	(29,971)	40,772	26,950
Long, A C	11,678	7,187	-	-	(7,992)	10,873	7,187
Pakurakai Forest Limited	58,391	35,933	-	-	(39,961)	54,363	35,933
Patience, J A	64,230	39,526	-	-	(43,957)	59,799	39,526
Kalimantan Estates Limited	58,391	35,933	-	-	(39,961)	54,363	35,933
Piercy, A R	70,069	43,119	-	-	(47,953)	65,236	43,119
R W & S F Gardiner Limited	70,069	43,119	-	-	(47,953)	65,236	43,119
Reymann, U	43,793	26,950	-	-	(29,971)	40,772	26,950
Roger Dickie No 1 Limited	87,587	53,899	-	-	(59,941)	81,545	53,899
Scott, J W	58,391	35,933	-	-	(39,961)	54,363	35,933
Selderbeek, H	58,391	35,933	-	-	(39,961)	54,363	35,933
McEwen, C & I as Trustees	58,391	35,933	-	-	(39,961)	54,363	35,933
Wakefield, S J	11,678	7,187	-	-	(7,992)	10,873	7,187
Willis, J M D	70,069	43,119	-	-	(47,953)	65,236	43,119
	1,459,778	898,319	-	-	(999,020)	1,359,077	898,319
Retained Earnings	2,719,700	(817,000)	-	-	-	1,902,700	
Total Equity	4,179,478	81,319	-	-	(999,020)	3,261,777	

2019 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.

Allocation to Partner

Dickie, Martyn Maurice

Interest	2,692.30
Passive income	51,206.84
Total Income	53,899.14
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Drummond, Peter

Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Reid, Estate John Stanley

Interest	897.43
Passive income	17,068.95
Total Income	17,966.38
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Farag, Nadya

Interest	1,346.15
Passive income	25,603.42
Total Income	26,949.57
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Farag, Michael

Interest	1,346.15
Passive income	25,603.42
Total Income	26,949.57
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Gillingham, Margaret	
Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Higgs, Murray J	
Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Holyoake Trading Trust	
Interest	4,128.19
Passive income	78,517.16
Total Income	82,645.35
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Hughes, Daniel Gerard	
Interest	897.43
Passive income	17,068.95
Total Income	17,966.38
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Hughes, Estate Janet Mary	
Interest	897.43
Passive income	17,068.95
Total Income	17,966.38
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Lavender, Michael Stuart	
Interest	1,346.15
Passive income	25,603.42
Total Income	26,949.57
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Pakurakai Forest Limited	
Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Patience, Judith Anne	
Interest	1,974.35
Passive income	37,551.68
Total Income	39,526.03
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Kalimantan Estates Limited	
Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Piercy, Allan Robert	
Interest	2,153.84
Passive income	40,965.47
Total Income	43,119.31
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

R W & S F Gardiner Limited

Interest	2,153.84
Passive income	40,965.47
Total Income	43,119.31
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Reymann, Ursula

Interest	1,346.15
Passive income	25,603.42
Total Income	26,949.57
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Roger Dickie No 1 Limited

Interest	2,692.30
Passive income	51,206.84
Total Income	53,899.14
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Scott, John W

Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Selderbeek, Huib

Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Formax Trust	
Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Willis, James	
Interest	2,153.84
Passive income	40,965.47
Total Income	43,119.31
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Akoranga Education Trust	
Interest	1,794.86
Passive income	34,137.90
Total Income	35,932.76
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Austin, Rosemary Anne	
Interest	358.97
Passive income	6,827.58
Total Income	7,186.55
Total Tax Credits	0.00
Deductions for extinguished losses	0.00
Hall, Judy Barbara	
Interest	358.97
Passive income	6,827.58
Total Income	7,186.55
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Hope, Unity Margaret

Interest	358.97
Passive income	6,827.58
Total Income	7,186.55
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Long, Anna Catherine

Interest	358.97
Passive income	6,827.58
Total Income	7,186.55
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Takiri Family Trust

Interest	897.43
Passive income	17,068.95
Total Income	17,966.38
Total Tax Credits	0.00
Deductions for extinguished losses	0.00

Wakefield, Sarah Jane

Interest	359.02
Passive income	6,827.55
Total Income	7,186.57
Total Tax Credits	0.00
Deductions for extinguished losses	0.00