Forest Partnership Report

14 April 2017

Hello,

The forestry sector is currently experiencing a period of strong returns fuelled by a combination of steady Chinese demand, low shipping costs, a local market building boom and a supportive NZD/USD relative to in-price markets. The Chinese demand is fuelled by a number of factors including a massive reduction in the harvest of their own domestic forests brought about by Chinese Government demands.

The ANZ reported in their forestry sector update that many of these trends look like they could extend for a number of years, supporting the demand for forestry products and returns. This is great feedback for our forestry estate and for the forestry sector generally looking forward.

We've had a very busy year, harvest preparation is beginning for seven of the forests this year, along with this we've transitioned to operate under the new Financial Market regulations - I am very worried about where all this is heading in regard to additional external compliance costs for our partnerships, we continue to work very hard to drive efficiencies across all aspects of the business ensuring the greatest return to our investors.

Valuations

Our consultants PF Olsen have recently forwarded us the annual valuations of our forests. The valuation takes into account present day costs and 12 quarter (three years) average log prices. An update of costs has reduced values but the increase in volume and the increase in 12 quarter log prices have had a net effect of increasing the values of the total estate by 12.5%. This figure is the average across the estate and will vary from forest to forest.

You are reminded that these valuations are not full valuations and are carried out as a desk top exercise to satisfy international financial reporting standards requirements. Olsens do briefly visit one third of the forest annually when compiling this report.

Insurance

We have had preliminary discussions with our insurance brokers. You may be aware our budgeted insurance premiums for the 2016/17 year were almost 30% less than the subsequent premium we were charged (this was renewed as always in September). The reason for this was a considerable firming in the insurance market. The brokers have told us they are hopeful the premium rate will not increase this coming year; Let's hope that is correct.

The Investment Fund

As previously agreed this fund has been used to pay insurance premiums, in most cases there will not be sufficient funds in the investment fund to pay the insurance premium this coming year. We will not know the insurance premium until September. The budget presented for the coming year anticipated the investment fund would pay the coming years premium. Where this is not possible additional NZUs will need to be sold.

Carbon Market – Emissions Trading Scheme

The government is reviewing the ETS. Some in the industry think the outcome of this will be to look at ways to help New Zealand meet their emissions goals under the Paris Accord. They will want do this without crippling our economic growth and our manufacturing and other emission producing industries. One such method may be the controlled reintroduction of cheaper foreign emission units to help maintain a carbon price that allows our emitters to remain competitive. This may well be a negative situation for those with units to sell and my view is that with our liability free units we have unbudgeted value for nothing and we should probably sell either enough units to cover us right through to harvest or 50% of our liability free units, whichever is the greater. This would guarantee no further share calls and at the same time allow us to retain some units should the NZU price rise.

We look forward to discussion on this and investor feedback at the coming meetings.

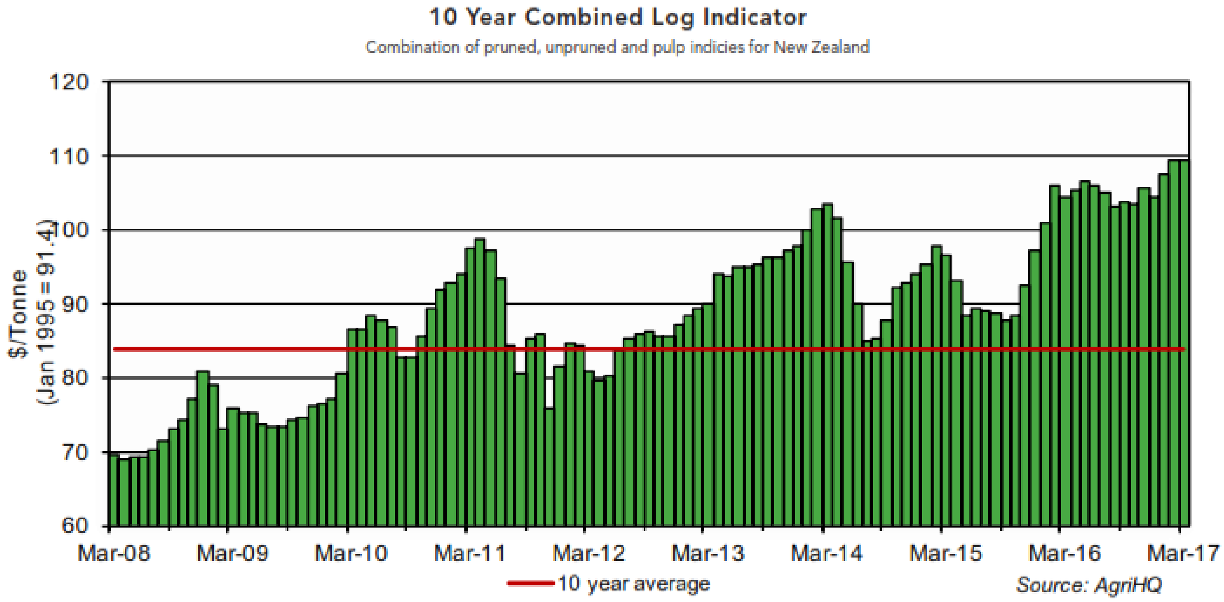
We have no desire to sell carbon credits (NZU's) with any associated liability with them - after all we are foresters, not speculators in the carbon market.

Log Markets

The New Zealand log harvest increased by 7.6% from 2015 to 2016, reaching 31 million cubic metres in the year ending December 2016. Despite this increase in harvested volume buoyant New Zealand activity (record high immigration, low interest rates) has put pressure on the New Zealand housing market. The booming horticulture industry is also pushing demand for roundwood (poles). This has helped keep log prices high - Agri HQ reports that structural log prices are the highest ($122) they have been since 1994. This demand looks set to remain steady and strong.

In the export market PF Olsen's Wood Matters reported the inventory at China ports rose sharply from the reported 2.2 million m3 in December 2016 to a current estimated 3.5-4.0 million m3. This is a result of the Chinese New Year and is not a major concern as factories across China closed down late January. While market observers are keeping a watching brief on this increase in inventory, they do not hold major concerns for the state of the market. Whilst there has been an absence of market information over this holiday time in China several factors should assist with reducing this inventory.

Overall market growth is still reported at 12% year on year which is a great sign. A majority of the logs that China purchases are used to manufacture low value high volume products that aid in the construction of concrete dwellings. This might be starting to change, there are increasing signs of China using wood in actual construction applications. This would open enormous new potential and higher value markets for our Radiata pine.



New Forest Planting

The high returns from forests being harvested has resulted in a significant upturn in interest from both local and overseas investors.

New Zealand's growing reputation as a good place to do business is encouraging investment in the forest sector. The refugee crisis overseas, our positive economic growth, our stance on climate change, our very high ratings in regard to no corruption and ease of doing business are all factors in our favour. The fact that we have no enemies, are isolated, have no strategic resources on a world scale and that we welcome overseas investment are also factors driving investment in forestry.

We have recently acquired a large mid rotation forest in the Wairarapa and this winter will be planting 350 hectares of Greenfields forestry in the Hawkes Bay region. We anticipate planting more than 1,200 hectares next year. We see this trend continuing for the foreseeable future.

Secondary Market

2016 was a busy year for secondary sales. The yield reduction in some commercial properties, along with the great run of log prices and hype in the forestry sector have helped fuel this demand. As always, we have buyers looking to increase their forestry holdings, please contact the office if you would be interested in increasing your partnership interests.

Conference

We are holding another conference for partners at the Napier Conference Centre, 48 Marine Parade on Saturday October 28th. The conference will be of particular interest for those partners whose forests are approaching harvest in the next few years.

We have negotiated a special accommodation rate for attendees of $184 (down from the usual rate of $275 at that time of year) at the Te Pania Hotel, directly over the road from the centre. For those wanting to make early bookings just advise the hotel you will be attending the Roger Dickie NZ Conference. Full details including a booking form will be sent to you next month.

Eastbourne Dairy Farm

Eastbourne dairy farm has been able to ride out the two previous years of very low payouts at breakeven point. The farm is performing exceptionally well with production already performing to the highest level. It is forecasting to pay a 5% dividend this year. There are still a small number of shares left in Eastbourne and our other farms - please contact Richard if you would like any information on these exceptional dairy opportunities.

Regards

Roger Dickie

Forest Management NEW ZEALAND LTD

Waikare Forest
Forest Managers Report

March 2017

It has been another busy year at Waikare Forest and while you are being regularly updated on the progress of the harvest operation, some of the other forest management activities have not been reported on for a while.

Last winter we planted around 110 hectares of the cutover and aerially released this a couple of months later. We have had excellent survivals amongst the replanted area.

At present, large swathes of the replanted area is covered in fleabane. While the weed looks likely to suppress the young seedlings, if you look more closely, the seedlings are still growing. The fleabane is now starting to seed so will not get any taller and will die back once we have had a frost or two.

Aerial dessication of the area to be planted this winter

We recently desiccated around 150 hectares of cutover in preparation for the planting this winter. The seedlings are ordered and the planting gang is booked in and we plan to carry out the work this June.

We have had a gentleman from Whanganui carrying out pest control amongst the young seedlings. There have been a lot of goats moving through the area and since planting last winter, he has shot close to 200 goats. The arrangement is that we buy ammunition and he is happy to shoot the goats as a bit of recreation. We issued him with a hand held radio so he can communicate with the logging crew and trucks so they know where in the forest he is and he knows where everyone is working so that both parties can carry out their activities in safety.

Now that we are post harvest in some parts of the forest, we have a roading infrastructure that has cost the partners a lot of money to establish and the challenge moving forward is how to protect this investment in a cost effective manner. We are taking the view that if we are able to keep the culverts and watertables with the water flowing in the correct places, this is possibly the best maintenance we can do. In addition, from time to time we will spray the vegetation off the roading so the plant roots cannot break up the roading surface.

Looking across the top of Farag Road

We are very pleased with progress made so far in establishing the second rotation at Waikare and look forward to the next planting season.

Steve Bell
Forest Manager

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24 March 2017

Silks Audit Chartered Accountants
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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 2017 at:

$3,680, 000 plus GST (if any)

The current productive net stocked area is estimated at 272.2 hectares.

This value estimate excludes the value of the land and the improvements thereon, other than the trees. The value estimate does not include the contingent tax liability on the income arising from the sale of the trees, or the logs at maturity. Also excluded are costs and revenues associated with subsequent crops, and any value from the costs and revenues arising from the option to join the Emissions Trading Scheme.

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 (2017) 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 2017" 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 2017, 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	2,057
Update area	1,046
Advance date one year	1,306
Update yields	1,306
Update costs	3,112
Update log prices	3,680
Update discount rate	3,680
Tree crop value this year	**3,680**

Area changes, if any, are mainly the result of remapping the stocked area during the year.

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 insurance, logging, harvest road construction and cartage have all risen this year. The harvest-related costs of logging, road construction and cartage 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 $ 3,908,000 in year 1197.

This projected stumpage revenue is expressed in 2017 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)

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 2017

Contents *Page*

MARKHAMS WAVERLEY LIMITED
CHARTERED ACCOUNTANTS
WAVERLEY

Waikare Forest Partnership

Statement of Total Profit/Loss and Comprehensive Income
For the Year Ended 28 February 2017

	Feb 2017 $	*Feb 2016* $	*Budget* $
HARVESTING ACCOUNT			
Operating Revenue			
Log Proceeds	13,269,885	6,561,563	2,410,592
Less Cost of Sales			
Harvesting Costs	3,473,699	1,762,954	-
Cartage	3,014,754	1,590,197	-
Forest Grower Levy	27,739	14,427	-
Management Fee	530,795	254,765	-
Temporary Roading & Maintenance	1,290,161	450,609	-
	8,337,149	4,072,952	-
Gross Profit for Period	$4,932,736	$2,488,610	$2,410,592

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

Waikare Forest Partnership

Statement of Total Profit/Loss and Comprehensive Income
For the Year Ended 28 February 2017

	Feb 2017 $	*Feb 2016* $	*Budget* $
Gross Profit from Harvesting Account	4,932,736	2,488,610	2,410,592
Forest Expenses			
Planting & Blanking - Labour	54,614	4,350	77,110
Planting & Blanking - Trees	45,288	2,900	-
Releasing - Labour	13,800	-	27,500
Releasing - Chemical	16,727	-	33,000
Fire Control	261	257	-
Management & Supervision Fees	35,415	4,450	24,549
	166,104	11,957	162,159
Operating Expenses			
Accountancy Fees	2,695	2,675	2,695
Administration	4,320	4,150	4,320
Bank Fees	125	56	90
Depreciation for Period	24,733	1,200	24,733
Legal Expenses	48	17	600
Mapping	-	468	-
Meeting Costs	392	590	300
Repairs & Maintenance - Fences	-	26	-
Subscriptions - Forest Health, Research, Kyoto	36	191	90
Sundry Expenses	624	-	2,000
Valuation - Forest	375	424	290
Weed & Pest Control	1,617	-	2,600
	34,965	9,797	37,718
Standing Charges			
Insurance - Public Liability	416	416	401
Insurance - Plantations	7,118	9,754	6,000
Interest - Overdraft	-	741	-
Rates	2,635	2,868	2,944
	10,169	13,779	9,345
Total Expenses	211,237	35,533	209,222
Net Operating Surplus for Period	4,721,499	2,453,077	2,201,370
Less Expenses Recovered			
Interest Received	3,927	4,039	720
Honey Income	-	1,440	-
	3,927	5,479	720
Profit/(Loss) for Tax Purposes	4,725,426	2,458,556	2,202,090
Plantation Revaluation Increase (Decrease)	1,623,000	(1,292,000)	-
Net Surplus/(Deficit)for Year	6,348,426	1,166,556	2,202,090
Comprehensive Income	-	-	-
Total Comprehensive Income	$6,348,426	$1,166,556	$2,202,090

Waikare Forest Partnership

Statement of Changes in Equity
For the Year Ended 28 February 2017

	Note	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

	Capital Accounts	Retained Earnings	2016 Total
Equity as at 1 March 2015	2,518,467	1,999,274	4,517,741
Total Comprehensive Income	0	1,166,556	1,166,556
Total Contributions From Partners	(1,299,880)	-	(1,299,880)
Total Transactions with Owners	(1,299,880)	-	(1,299,880)
Equity as at 29 February 2016	1,218,586	3,165,830	4,384,416

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

Waikare Forest Partnership

Statement of Financial Position
As at 28 February 2017

	Note	Feb 2017 $	Feb 2016 $
Current Assets			
Calls in Arrears		27	27
Prepaid Roading		-	611,719
Accounts Receivable		628,040	623,337
Cash and Cash Equivalents	3	266,061	415,444
		894,128	1,650,527
Non Current Assets			
Plantations	4		
Plantation Value		2,057,000	3,349,000
Revaluation for Year		1,623,000	(1,292,000)
	5	3,680,000	2,057,000
Property, Plant and Equipment	6		
Land & Buildings		1,116,100	1,116,100
Land Improvements		187,267	-
		1,303,367	1,116,100
Total Assets		5,877,495	4,823,627
Less Liabilities			
Current Liabilities			
Accounts Payable		545,821	172,381
Goods & Services Tax		293,973	266,829
		839,795	439,210
Total Net Assets		$5,037,700	$4,384,417
Represented by:			
Equity			
Capital Contributions per Schedule		-	1,218,588
Retained Earnings		5,037,700	3,165,829
		$5,037,700	$4,384,417

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

Waikare Forest Partnership

Cashflow Statement
For the Year Ended 28 February 2017

	Note	Feb 2017	Feb 2016
		$	$
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		3,927	4,039
Honey Income		-	1,440
Operating Income		13,265,181	5,938,226
Goods & Services Tax		27,144	272,080
		13,296,253	6,215,785
Cash was applied to:			
Interest		-	741
Operating Expenses		7,538,493	4,538,866
		7,538,493	4,539,607
Net Cash inflow (outflow) from operating activities	7	5,757,759	1,676,178
Cash Flows from Investing Activities			
Cash was applied to:			
Purchase of Property, Plant and Equipment		212,000	-
Net cash inflow (outflow) from investing activities		(212,000)	-
Cash Flows from Financing Activities			
Cash was provided from:			
Payouts to Partners		5,695,142	1,299,880
Net cash inflow (outflow) from financing activities	7	(5,695,142)	(1,299,880)
Net increase (decrease) in cash held		(149,383)	376,298
Cash at Start of Year		415,444	39,146
Cash at End of Year		$266,061	$415,444

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

Waikare Forest Partnership

Notes to the Financial Statements
For the Year Ended 28 February 2017

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 have been prepared in accordance with the Financial Reporting Act 2013. The partnership is applying Tier 1 reporting standards.

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

	Feb 2017	*Feb 2016*
	$	$
3. CASH AND CASH EQUIVALENTS		
B N Z Current Account	223,873	367,715
B N Z Deposit - Investment Fund	42,188	47,729
	$266,061	$415,444

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 of approximately 272.2 ha planted in 1989 153.6ha 2013 7.9ha, 2016 110.7ha The forest is a consumable immature biological asset.

5. PLANTATION REVALUATIONS

Valuer
The plantation was valued as at 28 February 2017 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.

Waikare Forest Partnership

Notes to the Financial Statements
For the Year Ended 28 February 2017

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.

Waikare Forest Partnership

Notes to the Financial Statements
For the Year Ended 28 February 2017

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 - 2016 Year			
Cost	1,125,000	-	1,125,000
Accumulated Depreciation	(7,700)	(1,200)	(8,900)
Net Book Value	1,117,300	(1,200)	1,116,100
Land and Improvements - 2017 Year			
Cost - October 2008	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

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

Waikare Forest Partnership

Notes to the Financial Statements
For the Year Ended 28 February 2017

7. **CASH FLOW RECONCILIATION**

	Feb 2017 $	*Feb 2016* $
Reconciliation of Cash Flows from Operating Activities.		
Reported Surplus for Year	6,348,426	1,166,556
Non Cash Item - Depreciation	24,733	1,200
Non Cash Item - Forest Revaluation	(1,623,000)	1,292,000
	4,750,159	2,459,756
Movements in Working Capital:		
(Increase)/Decrease in Accounts Receivable	(4,704)	(623,337)
Increase(Decrease) in Prepayments	611,719	(521,723)
Increase/(Decrease) in Accounts Payable	373,441	89,402
(Increase)/Decrease in GST	27,144	272,080
	1,007,600	(783,578)
Net Cash Flow from Operating Activities	$5,757,759	$1,676,178

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 100% equity finance from the partners.

9. **EVENTS AFTER BALANCE DATE**

There have been no significant events after balance date.

10. **EMISSIONS TRADING SCHEME**

Waikare Forest Partnership has been allocated 16,761 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 2017 is $297,508 (2016 - $159,229)

As the land is clasified 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 (2016 nil).

12. **CONTINGENT ASSETS & CONTINGENT LIABILITIES**

There were no contingent assets nor contingent liabilities as at balance date (2016 nil).

13. **RELATED PARTIES**

The partnership paid administration fees of $4,320, harvest management fees of $530,795 and management fees and forest expenses of $5,610,723 to companies in which R R Dickie, a partner, has a controlling interest. The partnership paid transport costs of $3,014,754 to Harvest Logistics Limited in which E E Dickie, the son of R R Dickie is a Director. These amounts were charged on normal commercial terms and conditions. The amount outstanding to related parties at balance date was $457 (2016 - $349), and the amounts receivable from related parties at balance date was $628,040 (2016 - $623,337). 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.

Have relied on a systems audit of FMNZ carried out in the late 90's and the intention from PF Olsen is to conduct another systems audit during 2017.

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 2017

	EQUITY ACCOUNTS					TAX RETURN
	Balance 2016	Ex Retained Earnings	Sales Entries	Distribution Made	Balance 2017	Share of Tax Profit
Akoranga Trust Inc	48,744	179,062	-	(227,806)	-	189,017
Austin, R A	9,749	35,812	-	(45,561)	-	37,803
Dickie, M M	73,116	268,593	-	(341,709)	-	283,526
Drummond, P S	48,744	179,062	-	(227,806)	-	189,017
Reid, Estate J S	24,372	89,531	-	(113,903)	-	94,509
Farag, M	36,558	134,296	-	(170,854)	-	141,763
Farag, N	36,558	134,296	-	(170,854)	-	141,763
Gillingham, M	48,744	179,062	-	(227,806)	-	189,017
Bukholt, K & Gower-James, N as Trustees	24,372	89,531	-	(113,903)	-	94,509
Hall, J B	9,749	35,812	-	(45,561)	-	37,803
Higgs, M J	48,744	179,062	-	(227,806)	-	189,017
Holyoake Industries Limited as Trustees	112,105	411,848	-	(523,953)	-	434,739
Hope, U M	9,749	35,812	-	(45,561)	-	37,803
Hughes, D G	24,372	89,531	-	(113,903)	-	94,509
Hughes, J M (deceased)	24,372	89,531	-	(113,903)	-	94,509
Lavender, M S	36,558	134,296	-	(170,854)	-	141,763
Long, A C	9,749	35,812	-	(45,561)	-	37,803
Pakurakai Forest Limited	48,744	179,062	-	(227,806)	-	189,017
Patience, J A	53,618	196,968	-	(250,586)	-	207,919
Kalimantan Estates Limited	48,744	179,062	-	(227,806)	-	189,017
Piercy, A R	58,492	214,875	-	(273,367)	-	226,820
R W & S F Gardiner Limited	58,492	214,875	-	(273,367)	-	226,820
Reymann, U	36,558	134,296	-	(170,854)	-	141,763
Roger Dickie No 1 Limited	73,116	268,593	-	(341,709)	-	283,526
Scott, J W	48,744	179,062	-	(227,806)	-	189,017
Selderbeek, H	48,744	179,062	-	(227,806)	-	189,017
McEwen, C & I as Trustees	48,744	179,062	-	(227,806)	-	189,017
Wakefield, S J	9,749	35,812	-	(45,561)	-	37,803
Willis, J M D	58,492	214,875	-	(273,367)	-	226,820
	1,218,588	4,476,554	-	(5,695,142)	-	4,725,426
Retained Earnings	3,165,829	(4,476,554)	-	6,348,426	5,037,700	
Total Equity	4,384,417	-	-	653,283	5,037,700	

2017 FINANCIAL YEAR

IS A PROFIT FOR

TAX PURPOSES

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