Forest Partnership Report

18 March 2016

Hello,

This has been another positive year for our forest estate.

Although the spring forecasts for the East Coast were for a dry summer due to the El Nino weather pattern, we have actually received good summer rainfall and all of our forests are in good heart as a result.

Valuations

You will be pleased to see the valuation of your forest asset shows an average increase of 17.8% over the 2015 valuation. A copy of the valuation is enclosed.

The forecast net stumpage at harvest for the forest, based on the increased values can be found on the last page of the valuation. From this you can calculate your net stumpage relative to your percentage of partnership interest/shareholding.

Carbon Market – Emissions Trading Scheme

As at today, the price of NZUs has climbed to $11 and will hopefully continue to move north. We believe many emitters have been holding back on purchasing units until there was clarity around the ETS review and whether the 2:1 subsidy would be removed or not.

On 17th March our climate change minister, Paula Bennett said that "It was a matter of when not if" the two for one subsidy for carbon emitters would be removed. This had an immediate effect on NZU prices which climbed to $11 by the end of the days' trading.

The NZ Emissions Trading Scheme is currently under review and we await the outcome, but based on the Ministers' comments, we are optimistic it will be positive for forestry. We know NZ is presently in a net deforestation situation and if the ETS is to remain an effective carbon management tool, foresters need a clear signal from the government via the ETS to give them the confidence to start planting again.

The NZU sales strategy we have adopted to fund the operating expenses of the forests enables us to take advantage of the rising NZU price. We are selling smaller parcels of units on an as required basis.

Log Markets

Many commodities on the world markets have had a rough time over the last few years. Who would have thought oil would trade down to $28USD.

Interestingly, while we have had two significant dips in log prices over the past twelve months, log prices have held up reasonably well. This is largely due to cheaper international freight rates and exchange rate gains against the USD rather than demand.

Inventory held at the Chinese ports has been lower than previous years over the Chinese New Year period. As a result the log price drops we generally see at this time have not happened. This has also helped to keep the prices up.

It is heartening to see at last a premium return to the market for pruned logs with P40 grade logs achieving $200 per JAS at some ports. The differential between the pruned price and A grade price is now high enough to make the owners of younger forests reconsider whether to prune or not to prune.

Now that we have more forests approaching harvest, it is important we have a better understanding of the markets we are selling our logs into. I have the opportunity to participate in a trip to look at the Chinese and other Asian markets, to help get a better understanding of them as well as the scale on which they operate.

This trip is planned for May.

Harvest age

In my midyear report in November I indicated that we will be commencing harvest of our forests at age 26 rather than the original forecast of age 28. We arrived at this decision after commissioning Jeff Schnell from Olsens to produce a cost benefit analysis as to the optimum time for harvest of our 1991 planted forests and his financial models shows that to be around age 26 years.

The reality is, the harvest of each individual forest will be spread over two or three years because in most cases, it is realistic to put one harvest crew in each forest. By planning harvest at an estate level, this creates economy of scale benefits which will benefit the forest owners. By smoothing the harvest volume, the partners will also derive the benefit of averaging log sale prices and tax benefits. (See separate section on tax)

Roading in the forests prior to harvest requires planning now as there is a significant economic advantage in constructing roads in the dry summer months to prepare for the clearfell operation. It is widely accepted that once the roads are formed, they require time to settle before the harvest traffic starts using them. This leads to more economical roading costs and reduced maintenance during harvest.

For forests planted in 1991/92 the proposal is to begin roading construction during summer of 2016/2017, further roading will be carried out in summer of 2017/2018 and main harvest will begin (when the forest is 26 years old), in the spring (September/October) of 2018.

Given the scale of the activity planned in the older forests we feel it is important partners are fully informed of future harvest plans for their forest. We are therefore having separate AGMs this year for Hawkes Bay forests planted in 1991/92 to outline the plans over the next few years.

Tax on Harvest Income

It is worth noting that under Sections EI1 and EJ1 of the Income Tax Act, the income from forestry may be spread for tax purposes, at the option of the taxpayer, over the income year in which the trees are harvested, and the preceding three income years – i.e. a total of four years. This can be advantageous for example where the tax on the income would otherwise result in a change of tax brackets, or where for whatever reason one of the preceding years has significantly less income.

By spreading the harvest over more than one income year, the effect is to extend this four year period – For example, if harvesting was to span three tax years, there are seven years in which the tree income can be allocated for tax purposes, which depending upon each individual's circumstances, could result in quite substantial tax savings.

Harvesting at Waikare Forest

After a slow winter, good progress has been made over the summer months with the harvest of Waikare Forest – the first of the Roger Dickie estate to be harvested. Approximately 27% of the forest is now harvested and over 63% of the roads established.

We have been harvesting our Waikare Forest in South Taranaki for 13 months and it is interesting to note that the average gross revenue per tonne is running at 19.7% ahead of the projection of 16 months ago, forecast by FMNZ based on last 12 quarter running averages. This is an excellent result considering that over that period we have gone through two significant log market price dips.

Managed Investment Scheme (MIS) Licensing

As previously advised, as administrator/manager of the forest partnerships, Roger Dickie (N.Z.) Ltd is required to obtain an MIS license by 1st December 2016. We are working on the application which is proving to be quite time consuming given the level of detail required by the Financial Markets Authority.

One of the changes we need to make is to the partnership Deeds of Participation (DOP) to ensure they are compliant with the Act. We have engaged Kensington Swan Lawyers to prepare a revised DOP. They advise that there are only minor changes required, and they expect to have the amended document completed shortly.

Once completed, the amended DOP will be circulated to the partners for adoption.

We continue to be aware of compliance costs and the need to manage these costs carefully.

Change of name of Statutory Supervisor

As advised in my mid-year report, Complectus Limited acquired the shares of our Statutory Supervisor, Foundation Corporate Trust. Complectus also owns Covenant Trustee Services Limited which is a supervisor licenced by the Financial Markets Authority.

The Boards of Foundation and Covenant have now proceeded to amalgamate both companies into one called Covenant Trustee Services Ltd. The amalgamation took effect on

March 1st this year and effectively is a name change only, as it will have no effect on our dealings with the Statutory Supervisor.

Partner IDs

Many of you will already have experienced the increased identification requirements when dealing with banks or other financial institutions. This is due to the Anti Money Laundering and Counter Financing of Terrorism Act 2009 Act.

We are now required to have formal identification, physical address and bank account details for all of our investors. A photo ID (passport or drivers licence) and a copy of a utilities bill confirming your residential address are needed to meet these requirements.

We will be working our way through all the forests and requesting this information from all investors and would ask for your cooperation in providing it to us. Unless we hold this information on file, we are unable to make distributions of harvest revenue or proceeds of the sale of partnership interests or shares.

Insurance

The insurance investment fund currently sits at $1,960,759 in total. The partnerships will each pay their insurance premiums out of their individual funds.

Secondary Market

Richard Bourne tells me he has strong interest in secondary market shares available for sale. The enquiries are from existing partners, other outside parties and strong interest from overseas buyers for partnership interests in forests approaching harvest.

Richard has had an excellent clearance of partnership interests offered for sale in the past few months so if you were considering selling, it may be a good time to discuss your options with him.

If you are interested in securing an investment in another forest partnership or farm, please contact Richard Bourne in our office or email richardb@rogerdickie.co.nz

Regards

Roger Dickie

WINDERMERE FOREST

ANNUAL REPORT

For the period 1 March 2015 to 29 February 2016

P O Box 516 | Gisborne 4040 | New Zealand
T: 06 868 5426 | F: 06 868 4147
info@pfolsen.com | www.pfolsen.com

Table of Contents

1. SUMMARY

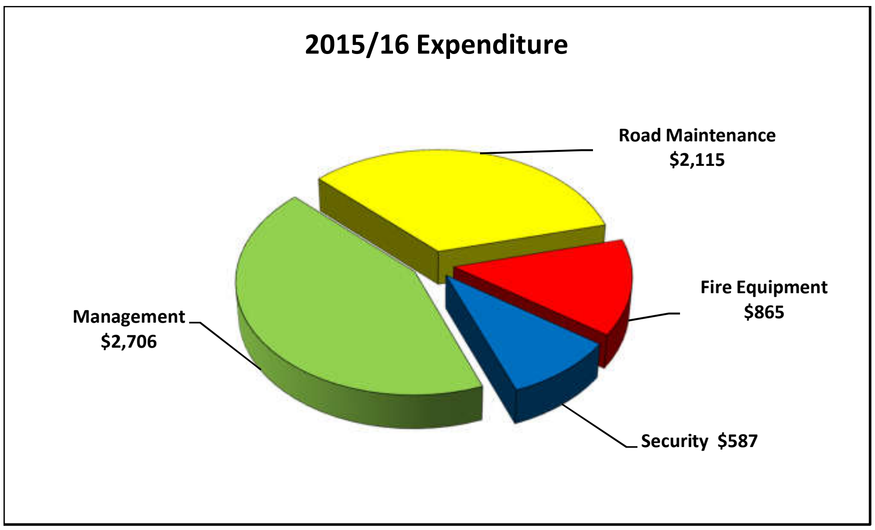
Financial summary

Forest expenditure for the 2015/16 financial year was under budget. This was due to lower than forecast management fees and road maintenance work.

Budget variances by operation are explained further.

Budget	$8,766
Actual	$6,273
Variance	(2,493)
	(28%)

Operational summary



2. FORESTRY OPERATIONS

Budget variance

The year end financials are summarised below.

Operation	Budget	Actual	Variance	Variance (%)	Comments
Road maintenance	3,000	2,115	(885)	(30)	• Clearance of mostly wind thrown materials after storm events.
Fire equipment	866	865	(1)	-	• As budgeted.
Security	400	587	187	47	• Repairs to security gate. • Damages are believed to have been incurred from poachers attempting to gain entry to the forest with vehicles.
Management	4,500	2,706	(1,794)	(40)	• Report below.
Totals	**8,766**	**6,273**	**(2,493)**	**(28)**	

Forest management

Forest management functions undertaken throughout the year have included;

- Regular forest inspections.
- Aerial inspection after cyclone Pam (March 2015).
- Investigate security issues and follow up on damages to gates.
- Client reporting and budget.
- Eastland Wood Council representation.

The forest continues to grow well and is in good condition overall. There have been some minor windthrow damages caused by cyclone Pam in March and the storm that caused significant flooding in the Gisborne city and outlying areas in September. All the main tracks were cleared following these storms and are now open.

There was a number of trespass events over the last 12 months with damages incurred to the security gate. We have been working closely with JNL in an attempt to trespass offenders.

3. FOREST INDUSTRY

Eastland Port

A key focus for the local forest industry during 2015 was a continuation of negotiations with Eastland Port Ltd to review port costs.

Eastland Wood Council members have formed a group led by Peter Clark (PF Olsen CEO) to engage with port management to discuss port costs, efficiencies and ongoing capital development and expenditure. This has been encouraged by the Commerce Commission.

Controlling costs within the supply chain is very important as each additional $1.00 reduces stumpage by approximately $600/ha to the forest owners.

A confidential agreement has been reached between forest owners and Eastland Port. The Commerce Commission has been notified of the agreement.

Forest owners also ensured that they will be fully consulted in regard to future port development proposed for our industry by partaking in these negotiations. This is important and ensures that port development is beneficial and cost effective as ultimately forest owners pay for port upgrades.

Harvest and marketing

It has been another year of volatility in export log markets.

Currently log pricing (Feb 2016) is well above trend with steady demand for logs supported by lower inventory of logs held on Chinese Ports.

Pruned log prices have reached over $200 per JAS m^3 in recent months. This supports the investment that forest owners have made in silviculture.

India is another market that has performed well at times during 2015 and shipments to this market have been regular from Gisborne.

While inventories are relatively low in China at present, the Chinese New Year celebrations will affect log markets in the second quarter of 2016. It is hoped that log inventories do not build too greatly during the Chinese new Year celebrations and log pricing remains firm.

The difference in the log market in 2016 is that NZ costs are lower than last year with our currency devaluation (as compared with the US dollar) and very low shipping rates, assisted by record low oil/fuel costs.

Continued on next page...

…continued

These factors have made delivered logs from NZ to our significant markets of China, Korea and India more competitive than other counties, with the benefit of maintaining good pricing to the NZ forest owner.

Given the dynamic marketing environment for export and domestic log sales, PF Olsen are constantly evaluating log sale opportunities.

While it is often advantageous to have a wide range of log purchase options, payment default can be a risk for some of those purchasers, particularly for new entrants to the market or smaller entities. While PF Olsen does its best to address credit worthiness, sometimes details are difficult to obtain in regard to trading solvency.

To address this, PF Olsen have introduced a payment protection insurance. A fact sheet is appended for your interest.

Eastland Wood Council

PF Olsen is a major contributor and financial supporter of the Eastland Wood Council (EWC). The EWC is an advocacy group primarily focused on improving the operating environment for forestry in the region and improving the public's awareness and image of forestry.

During 2015 EWC members employed a new CEO, Prue Younger, to replace retiring CEO Trevor Helson. Prue is well known in the district and is committed to raising the profile and image of forestry with the general public and local government.

The EWC will continue with existing projects including;

- Member's drug and alcohol testing of the work force.
- Annual forestry awards.
- Participation in school career expos, organising industry and forest processing visits for students, teachers and parents.
- 'Share the Road' Programme. Representatives from the region's major forest companies visit local schools presenting a safety message in regard to sharing the road with harvesting and general traffic. This has been well-supported by regional trucking firms and feedback from schools has been excellent.
- Lobbying local and central government for improved infrastructure and operating environment for the forest industry.
- Continuation of the Eastland Port lobby group etc.

Eastland Rural Fire District (ERFD)

The ERFD members are committed to maintaining forest fire protection until such time as the newly proposed Unified Fire Service (UFS) is formed and functioning.

The government has passed legislation which by 2017 is supposed to transfer the rural fire management to a UFS. Essentially there will be 16-20 regions in NZ that will have elected boards to manage rural and urban fire and other emergency services.

Our region is likely to extend from East Cape to Mt Bruce in the Waiarapa on the eastern side of the North Island.

It is a huge job putting a UFS in place so local forest companies belonging to the ERFD will continue to work together until the UFS is functioning.

4. HEALTH & SAFETY

Principal's health and safety obligations

Forest owners have obligations under the Health and Safety in Employment Act 1992 (the Act) to ensure that all persons entering their forest are advised of hazards and operate safely.

PF Olsen Ltd ensures forest owner obligations and responsibilities are met with respect to this Act. The management contract details the specific service level required of the forest manager. The remaining areas of responsibility for the forest owner are:

- Advising the forest manager of any specific forest hazards (that the forest manager would not be reasonably expected to know about).
- Advising the forest manager of any activity initiated or approved by the forest owner.
- Ensuring safe practice if the forest owner enters or uses the forest themselves.

PF Olsen meets its (and the forest owner's) health and safety management obligations and responsibilities, as follows:

- Has a comprehensive Health and Safety Management System.
- Ensures that any contractor engaged have a comprehensive Health and Safety Management System.
- Employs suitably skilled, qualified and trained professionals to plan and manage operations in client forests.
- Employs a highly competent specialist Health and Safety Manager, Nic Steens.
- Uses formal written agreements to engage all contractors.
- Engages qualified and trained contractors to undertake operations within client forests.
- Scopes the work, identifies the hazards on the work site related to the operation and puts appropriate controls in place to manage these hazards.

Continued on next page...

…continued

- Inducts and audits its own personnel and contractors to safely mobilise them at commencement of operations and to monitor compliance during operations.
- Maintains management systems to the ISO 9001:2008 standard.
- Is routinely subjected to audit by external parties.
- Develops and communicates safety initiatives and programmes such as Safety Champions, Safe Start and Zero Tolerance.
- Is a member of the Safety Leadership Forum and various other safety committees, councils and industry groups.
- Works closely with the Accident Compensation Commission, WorkSafe (formerly the Dept. of Labour) and Competenz on health and safety programmes and partnerships.
- Administers a comprehensive drug and alcohol – free workplace programme.
- Monitors and reports on key health and safety statistics.

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

18 March 2016

Silks Audit Chartered Accountants
PO Box 7144
Wanganui 4541

Windermere Forest
Tree crop valuation

As requested, we have assessed the fair value of the tree crop assets at Windermere forest owned by Windermere 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 29 February 2016 at:

$4,649,000 plus GST (if any)

The current productive net stocked area is estimated at 192.8 hectares.

This value estimate excludes the value of the land and the improvements thereon, other than the trees. The value estimate does not include the contingent tax liability on the income arising from the sale of the trees, or the logs at maturity. Also excluded are costs and revenues associated with subsequent crops, 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 (2016) 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 2016" 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 2016, 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	4,081
Update area	4,081
Advance date one year	4,457
Update yields	4,457
Update costs	4,413
Update log prices	4,486
Update discount rate	4,649
Tree crop value this year	**4,649**

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 tending, harvest road construction and cartage have all risen this year. Changes to tending costs will only impact on forests with tending operations remaining. The harvest-related costs of 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 pruned radiata logs have increased this year, while prices for other grades have dropped slightly, or remained relatively flat.

We have reduced the discount rate applied in this valuation. Evidence from recent forest transactions suggest that purchasers are applying lower discount rates in deriving tree crop values.

Harvest revenue

Based on the assumptions adopted for the purpose of this valuation, the owner of Windermere forest is projected to receive a total net stumpage revenue of approximately $ 8,238,000 in year 2022.

This projected stumpage revenue is expressed in 2016 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.

Windermere Forest Partnership

Financial Statements
for the Year Ended 29 February 2016

Contents *Page*

MARKHAMS WAVERLEY LIMITED
CHARTERED ACCOUNTANTS
WAVERLEY

Windermere Forest Partnership

Statement of Total Profit/Loss and Comprehensive Income
For the Year Ended 29 February 2016

	Feb 2016 $	Feb 2015 $	Budget $
Forest Expenses			
Fire Control	865	1,297	866
Forest Health	-	158	-
Management & Supervision Fees	4,629	3,522	4,500
	5,494	4,977	5,366
Operating Expenses			
Accountancy Fees	2,675	2,705	2,675
Administration	4,150	3,918	4,200
Audit Fees	1,575	1,575	1,595
Bank Fees	82	101	150
Depreciation for Period	299	322	299
Emission Trading Scheme	466	1,769	-
Legal Expenses	17	17	600
Meeting Costs	284	252	300
Repairs & Maintenance - Tracks & Dams	946	1,131	3,000
Security	323	-	400
Statutory Supervisor	1,325	1,325	1,325
Subscriptions - Forest Health, Research, Kyoto	83	47	60
Sundry Expenses	302	256	2,000
Valuation - Forest	348	225	250
	12,876	13,645	16,854
Standing Charges			
Insurance - Public Liability	416	401	-
Insurance - Plantations	9,073	7,277	7,826
Rates	4,493	4,246	4,417
	13,982	11,925	12,243
Total Expenses	32,352	30,546	34,463
Less Expenses Recovered			
Interest Received	1,871	1,082	240
Carbon Credit Sales (Net)	34,750	1,836	-
	36,621	2,918	240
Profit for Tax Purposes	4,269	(27,628)	(34,223)
Plantation Revaluation Increase (Decrease)	568,000	1,156,000	-
Net Surplus/(Deficit)for Year	572,269	1,128,372	(34,223)
Comprehensive Income	-	-	-
Total Comprehensive Income	$572,269	$1,128,372	($34,223)

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

Windermere Forest Partnership

Statement of Changes in Equity
For the Year Ended 29 February 2016

	Note	*Capital Accounts*	*Retained Earnings*	*2016 Total*
Equity as at 1 March 2015		1,631,350	2,843,731	4,475,081
Total Comprehensive Income		0	572,269	572,269
Total Contributions From Partners		0	-	0
Total Transactions with Owners		0	-	0
Equity as at 29 February 2016		1,631,350	3,416,000	5,047,350

	Capital Accounts	*Retained Earnings*	*2015 Total*
Equity as at 1 March 2014	1,605,430	1,715,359	3,320,789
Total Comprehensive Income	0	1,128,372	1,128,372
Total Contributions From Partners	25,920	-	25,920
Total Transactions with Owners	25,920	-	25,920
Equity as at 28 February 2015	1,631,350	2,843,731	4,475,081

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

Windermere Forest Partnership

Statement of Financial Position
As at 29 February 2016

	Note	Feb 2016	Feb 2015
		$	$
Current Assets			
Cash and Cash Equivalents	4	42,037	36,417
Goods & Services Tax		1,932	2,048
		43,970	38,465
Non Current Assets			
Plantations	5		
Plantation Value		4,081,000	2,925,000
Revaluation for Year		568,000	1,156,000
	6	4,649,000	4,081,000
Property, Plant and Equipment	7		
Land		351,440	351,440
Land Improvements		3,887	4,186
		355,327	355,626
Total Assets		5,048,297	4,475,091
Less Liabilities			
Current Liabilities			
Accounts Payable		262	-
Calls in Advance		685	10
		947	10
Total Net Assets		$5,047,350	$4,475,081
Represented by:			
Equity			
Capital Contributions per Schedule		1,631,351	1,631,351
Retained Earnings		3,415,999	2,843,731
		$5,047,350	$4,475,081

________________ Partner ________________ Partner

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

Windermere Forest Partnership

Cashflow Statement
For the Year Ended 29 February 2016

	Note	*Feb 2016* $	*Feb 2015* $
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		1,871	1,082
Carbon Credit Sales (Net)		34,750	1,836
Goods & Services Tax		115	108
		36,736	3,026
Cash was applied to:			
Operating Expenses		31,791	30,224
		31,791	30,224
Net Cash inflow (outflow) from operating activities	8	4,946	(27,199)
Cash Flows from Financing Activities			
Cash was provided from:			
Calls on Participatory Securities		675	25,930
Net cash inflow (outflow) from financing activities	8	675	25,930
Net increase (decrease) in cash held		5,621	(1,269)
Cash at Start of Year		36,417	37,685
Cash at End of Year		$42,038	$36,416

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

Windermere Forest Partnership

Notes to the Financial Statements
For the Year Ended 29 February 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Financial Statements presented here are for the entity Windermere Forest Partnership, which is a Partnership registered under the Partnership Act 1908.

Windermere Forest Partnership is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of Windermere Forest Partnership have been prepared in accordance with the Financial Reporting Act 1993.

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.

The information is presented in New Zealand dollars.

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 Windermere Forest Partnership has voluntarily entered the Emission Trading Scheme ("ETS") in relation to 193 ha of plantation forest. Emission units are received from, or transferred to the government in respect of carbon stock changes in respect of this land. Carbon stocks are calculated in accordance with the climate change (forestry sector) regulations 2008. Some units received will have to be returned to the government upon harvest of the forest stock. As a result, units received are held at a nominal value and the units held are disclosed in the notes to the financial statements. Unit values will not be recorded in the income statement unless it is certain that the units will not be required to meet harvest obligations.

iv Revenue on sales of goods is recognised when they are delivered and ready for use by the customer.

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

vi Cash and cash equivalents include cash on hand, bank balances, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

vii Property improvements, plant and equipment is recorded at cost less accumulated depreciation. Land is recorded at cost. Depreciation has been calculated on a diminishing value basis.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised in the Statement of Comprehensive Income and is calculated as the difference between the sale price and the carrying value of the item.

Depreciation is provided for on a diminishing value basis on all tangible property, plant and equipment other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost or valuation less estimated residual value, over their estimated useful lives.

Major Depreciation periods are:
Land Improvements - average 28 years

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

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

x The financial statements have been prepared on a GST exclusive basis, except for receivables and payables which are presented inclusive of GST.

Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

2. **AUDIT**

These financial statements have been produced subject to audit, please refer to Auditor's Report.

3. **BUSINESS**

The principal activity of Windermere Forest Partnership is that of Afforestation. The partnership grows pinus radiata for the purpose of selling the harvest in 2022.

	Feb 2016	*Feb 2015*
	$	$
4. CASH AND CASH EQUIVALENTS		
B N Z Current Account	23,717	10,538
B N Z Deposit - Investment Fund	18,320	25,879
	$42,037	$36,417

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

5. PLANTATION DETAILS

The plantation is comprised of Pinus Radiata trees planted in the Wairoa District. The Net Stocked Area of approximately 193 hectares was planted in 1981 (10ha) and 1994 (183ha).

6. PLANTATION REVALUATIONS

Valuer
The plantation was valued as at 29 February 2016 by Jeff Schnell, Registered Forestry Consultant (NZIF), of PF Olsen Limited, forest consultants and managers. The estimated fair value of the plantation is categorised within Level 3 of the fair value hierarchy.

Valuation Methodology
The valuation uses the following procedure:

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.

Windermere Forest Partnership

Notes to the Financial Statements
For the Year Ended 29 February 2016

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 December 2015) as reported by MPI. They range from \$54 to \$154 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 exclusive of GST.

i Tending costs vary with the age of the trees.
ii Annual costs for insurance, forest management, etc. have been assumed at \$120.30 per hectare per year.
iii Clearfell harvest costs are based on current average contract costs.
iv A logging and loading cost of \$28.30/m3 has been assumed for ground based logging, and \$38/m3 assumed for hauler logging. These are based on current operations in the East Coast region of the North Island.
v A road and skid formation cost ranges from \$2,415 up to \$3,250 per hectare with a average of \$2,830 per hectare. In addition, a maintenance cost of \$1.60 per m3 has been assessed to cover road maintenance during the harvest operations.
vi Harvest management costs are set at \$5.30/m3 for all crop types. This is based on current industry efficient costs for management of similar sized operations.
vii Cartage costs are based on a cost model which has been derived from current actual contract rates.

A significant increase in costs would decrease 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 7.0% 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.

7. **PROPERTY, PLANT AND EQUIPMENT**

	Opening Value	Additions/ Deletions	Closing Value
Land and Improvements - 2015 Year			
Cost - February 1995	373,527	-	373,527
Accumulated Depreciation	(17,579)	(322)	(17,901)
Net Book Value	355,948	(322)	355,626
Land and Improvements - 2016 Year			
Cost - February 1995	373,527	-	373,527
Accumulated Depreciation	(17,901)	(299)	(18,200)
Net Book Value	355,626	(299)	355,327

The latest capital value set by Quotable Value for rating purposes in August 2015 was $650,000 (Wairoa District Council) and July 2014 was $1,000 (Gisborne District Council)

	Feb 2016 $	Feb 2015 $
8. CASH FLOW RECONCILIATION		
Reconciliation of Cash Flows from Operating Activities.		
Reported Surplus for Year	572,269	1,128,372
Non Cash Item - Depreciation	299	322
Non Cash Item - Forest Revaluation	(568,000)	(1,156,000)
	4,568	(27,306)
Movements in Working Capital:		
Increase/(Decrease) in Accounts Payable	262	-
(Increase)/Decrease in GST	115	108
	378	108
Net Cash Flow from Operating Activities	$4,946	($27,199)
Reconciliation of Cash Flows from Financing Activities		
Calls on Participatory Securities	-	25,920
(Increase)/Decrease in Calls in Arrears	-	30
Increase/(Decrease) in Calls in Advance	675	(20)
Net Cash Flow from Financing Activities	$675	$25,930

9. FINANCIAL INSTRUMENTS

Interest Rate Risk

The partnership has no interest rate risk given that no money is owed to other financial institutions.

Credit Risk

Financial Instruments which potentially subject the partnership to credit risk principally consist of bank balances, deposits and accounts receivable as set out in the Statement of Financial Position. The amounts set out are the maximum exposures and are net of any recognised provision for losses on these financial instruments. No collateral is held for any of these amounts.

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.

10. **EVENTS AFTER BALANCE DATE**

There have been no significant events after balance date.

11. **EMISSIONS TRADING SCHEME**

Windermere Forest Trustee Limited has replaced Corporate Trust Limited as trustee holding the Partnership land as registered proprietor in trust for the Partnership. Windermere Forest Trustee Limited holds 48,691 NZUs (2015 - 53,691) on the New Zealand Emission Unit Register on behalf of the partners. The Partnership elects to record these at their Nominal Amount ($0). The Fair Value of these NZUs based on prices offered by brokers as at 29 February 2016 is $462,564 (2015 - $316,777)
During the year, 5,000 NZU's were sold. Of the 48,691 NZU Units held at balance date, 38,093 are able to be sold without liability for future repurchase on harvest.

12. **CAPITAL COMMITMENTS & CONTINGENT LIABILITIES**

At balance date, and also the previous balance date, there were no known capital commitments or contingent liabilities.

13. **RELATED PARTIES**

The partnership paid administration fees of $4,150 and management fees and forest expenses of $499 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 $249 (2015 - $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.

<u>Forest Plantation</u>
Windermere Forest Partnership is one of approximately 90 forests administered by Roger Dickie (NZ) Limited using a common forest manager, Forest Management New Zealand (FMNZ) and a common valuer PF Olsen Limited. With a forestry estate of this size PF Olsen is able to carry out rotational checks on selected forests to validate the accuracy of forest data that FMNZ provides for the purposes of the forest valuation.

Due to the nature of a growing forest it is not practical or economic to be physically counted each year. The treecrop valuation is how the underlying growing forest is represented in financial terms.

FMNZ has been providing forest management services to the company since inception and has been producing the required data for the forest valuer (PF Olsen). PF Olsen is, a forestry consultant in its own right and qualifies as an expert for financial reporting purposes.

PF Olsen in order to rely upon the physical data provided by FMNZ validates this information on a rotational basis in the following manner:

PF Olsen prepared the initial feasibility study that takes into account significant factors such as plantable area, topography and soils, climate, growth potential, forest development programme, planting and tending, and forecast yields.

Has knowledge of the geographic estate that the forest is growing in.

Inspects a subset of forests each year.

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 2016.

15. PARTNERSHIP STRUCTURE

Partners have subscribed for Participatory Securities in the Partnership. The number of Participatory Securities has been fixed at 375,000 and they have no nominal value. The partners are required to contribute capital, and to share partnership profits and losses, pro rata in accordance with the number of Participatory Securities held by them in the Partnership. Capital contributions are in accordance with an annually approved budget. The Partners are jointly and severally liable for all Partnership debts.
Roger Dickie No 13 Limited partnership capital is unpaid. As disclosed in the prospectus, the payment is deferred and will be debited against his share of income from log sales.

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.

Windermere Forest Partnership

IRD No 062-367-024

Statement of Changes in Equity

For the Year Ended 29 February 2016

	EQUITY ACCOUNTS					TAX RETURN
	Balance 2015	Calls for Year	Sales Entries	Profit or Loss	Balance 2016	Share of Tax Profit
Balderstone Forestry Limited	67,974	-	-	-	67,974	(171)
Capacino Investments Limited	67,974	-	-	-	67,974	(171)
Dashwood Green Company Limited	67,974	-	-	-	67,974	(171)
Easton Apples Limited	82,829	-	-	-	82,829	(208)
G A & J Dixon Forests Limited	95,218	-	-	-	95,218	(239)
Gould, B M	36,180	-	-	-	36,180	(91)
Gould, JW	37,993	-	-	-	37,993	(95)
Hickling, J A	33,987	-	-	-	33,987	(85)
Higgs K	33,987	-	-	-	33,987	(85)
J L Black Investments Limited	72,225	-	-	-	72,225	(181)
Jackman Windermere Forestry Inv Ltd	67,974	-	-	-	67,974	(171)
Kiwi Lumberjack Limited	135,948	-	-	-	135,948	(342)
L Walton Forestry Limited	15,235	-	-	-	15,235	(38)
Marshall, C P	67,974	-	-	-	67,974	(171)
McIntosh, N R	69,361	-	-	-	69,361	(174)
McKenzie, W F	69,492	-	-	-	69,492	(175)
Mehrtens, K	55,680	-	-	-	55,680	(140)
Norddal Forestry Limited	103,207	-	-	-	103,207	(259)
Osborn Forests Limited	71,627	-	-	-	71,627	(180)
Seitz, Heinz-Dietmar	62,536	-	-	-	62,536	(157)
Sutcliffe, P J	67,974	-	-	-	67,974	(171)
Wakelin, R L	39,656	-	-	-	39,656	(100)
Wakelin, PL & AE & Waterford Trustee Services Ltd as Trustee	18,126	-	-	-	18,126	(46)
Wallace Forests Limited	66,732	-	-	-	66,732	(168)
Williams, H	53,328	-	-	-	53,328	(134)
Woodworx Limited	70,186	-	-	-	70,186	(176)
Roger Dickie No 13 Limited - see Note 15	(27)	-	-	-	(27)	(171)
	1,631,351	-	-	-	1,631,351	(4,269)
Retained Earnings	2,843,731	-	-	572,269	3,415,999	-
Total Equity	4,475,081	-	-	572,269	5,047,350	

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