



Forest Partnership Report

31 March 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 have been harvesting our first forest, Waikare for the past two years. Despite the high roading and cartage costs one of our corporate investors has calculated the compound annual return to date to be around 12%.

We've had a very busy year, harvest preparation is beginning for seven of the forests this year, along with this we've transitioned your partnership schemes 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 - more about this later.

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

As you have seen in your forest meeting agenda and budget (circulated earlier) we have updated the resolution that allows us to sell additional liability free carbon to cover forests costs through to harvest.

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 to 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.

When we set up our forest partnerships they were primarily to receive revenue by the way of shareholder calls and subsequently log sales. The Emissions Trading Scheme arbitrage and ability to realise liability free emissions trading units has been a significant windfall for our forest partners (we've been able to pay all forest operating costs without share calls for the last three years).

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.



Recently we were approached by a large multinational oil company who are interested in a lease arrangement with our NZUs that carry liability. When we go to harvest our forests they would surrender the carbon back to us to cover the liability. Initial discussions were around the lease covering the annual fees to remain in the ETS, thus providing flexibility in the market if something positive happens in the carbon space that we could monetise to our benefit again.

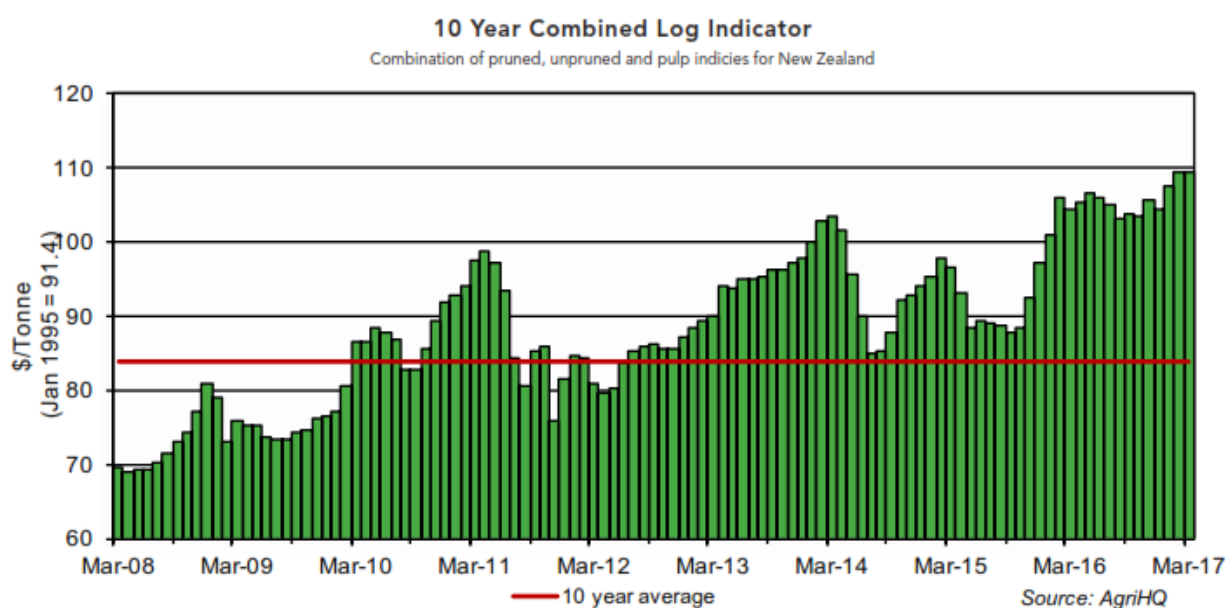
Log Markets

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.



Compliance

You are all aware that we have transitioned your partnership schemes to operate under the new Financial Markets Conduct Act.

You will note in your budget the value of \$2,000 for compliance, these are costs associated with meeting FMA requirements. As well, the Statutory Supervisor have increased their annual fee from \$1,250 to \$1,500. As mentioned previously, as part of this transition we have had to change all the assets of the partnership to be held in the name of the supervisor. Your forest partnership land now has an encumbrance registered on the title in favour of the supervisor. This is to ensure that we as the manager do not go and sell the land out from under the partners without your approval - something that was never going to happen, but hypothetically could I suppose.

Another compliance requirement that has been forced upon us, is the bank account is controlled by the supervisor and is set with a maximum transaction limit of \$1,000 per day except for 20th and 21st of the month when the limit is \$25,000. This requirement exists even though partners approve the annual budget in advance, and the accounts are independently audited. This requirement is in my mind a stupid impediment that just adds cost to running the business with (in our opinion) no benefit to investors.

There are other layers of compliance and reporting that we are required to carry out, such as quarterly reporting to the supervisor.

Tax on Harvest Income

Income from your forest harvest is taxable. Be aware that in many circumstances (with IRD approval) the income can be spread back to the three previous years prior to harvest. You need to take specialist tax advice on this subject.

Napier - Wairoa rail line

The opening of the Napier-Wairoa rail line is looking positive but not yet confirmed. It is proposed that Napier Port are going to be running the operation from Wairoa.

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.

Anti Money Laundering

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and its regulations place certain obligations on organisations like ours. In order to comply we must carry out initial and ongoing customer due diligence (CDD) on all of our customers. This is a non negotiable requirement, and we appreciate your help with this matter when the questions are asked of you. I remind you that you cannot receive payments for your harvest proceeds unless you satisfy your AML requirements.

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

March 2017

Windsor Forest Forest Managers Report

Following on from a wet spring, the Hawkes Bay and Gisborne regions have had an extremely dry summer with little rainfall of any significance until the middle of February. The dry conditions were exacerbated by the almost constant presence of wind which contributed to making the regions so parched. All of the rural fire crews have been on high alert and there have been several grass and scrub fires they have had to contend with. It is a relief to see the hills "greening" up after the recent rainfall.

Forest health is generally very good with foliage a healthy vibrant green throughout the forest. The very dry summer through the region has not affected tree health, with no sign of moisture stress evident. It is pleasing to see there is little new evidence of red needle cast infection in the forest at present.

The tracks are currently in excellent condition. Our tracking maintenance work has been running behind schedule and the bulldozer was not able to get to the property by the end of the financial year. The budget allowance for this work has been carried over to this financial year and the work has now been completed.

We have made allowance for the shared cost of repairs to the Hood boundary fence. This fence runs between the road and the area logged by the neighbour last year.

Weed control budgeted last financial year for the trackside spraying of blackberry was not used however, we have left it in the budget for this year and will only use it if necessary. We have also made allowance for spraying the variegated thistles and blackberry along the Hood boundary which will be helpful prior to effecting the fence repairs.



The permanent sample plots in the 1991 and 1993 stands are due to be re-measured this year and we have budgeted for this work to be carried out in May.

The permanent sample plots in the 2000 stands have been re-measured and show an average diameter at breast height (dbh) of 41.0 cms and a tree height of 27.9 metres. The dbh has increased by 2.7 cms and the tree heights by 2.2 metres since the last measurement two years ago.



There is very little sign of pest damage in the forest at present. The possum control work was not carried out last year as scheduled however, we have budgeted for this work later in the year. Now we have the numbers to a manageable level we want to keep them there.

NZU Sales

Over the past six months, NZU prices have fluctuated between \$16.50 and \$18.85 however, did not reach \$20 by the end of 2016 as some of the market commentators forecast. It seems every time the price gets over \$18, the market stalls and the price slips back again.

We have continued to sell small tranches of units to meet operating expenses as required. On behalf of Windsor Forest we have made the following transactions:

14/09/2016	400 units @ \$18.85
23/11/2016	650 units @ \$17.05

At the end of the financial year, this leaves Windsor Forest holding 52,426 liability free units, 1,920 pre 1990 units and 52,426 units that do carry liability.

2017 is the end of the second commitment period which means the field measurement plots are due for re-measurement this year. The data from this plotting will be used to update the forest specific yield tables. We have made allowance in the budget to carry out this work in June, as well as the submission of the mandatory emissions return early next year.

The government has recently held meetings around the country to update stakeholders on the second part (Stage 2) of the ETS review. The meetings were held in two separate sessions. The first session focussed on unit supply settings in the 2020s and covered:

- Potential issues that current NZ ETS unit supply policy settings may cause for meeting New Zealand's 2030 target and future targets associated with the Paris Agreement.
- Options for addressing those issues, including options related to free allocation, auctioning, international market linkages, and price control measures.

The second session focussed on forestry matters, specifically post-1989 forest carbon accounting issues. This included discussion on averaging and harvested wood products options for future inclusion in the ETS.

We did get the sense the government officials were there to listen and we await further information or policy changes that will address these matters. One message that does seem to have been received by the government is that all of the participants in the ETS have a need for certainty around policy moving forward.



Steve Bell
Forest Manager

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24 March 2017

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Windsor Forest Tree crop valuation

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

\$4,710, 000 plus GST (if any)

The current productive net stocked area is estimated at 345.6 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	4,108
Update area	4,228
Advance date one year	4,642
Update yields	4,642
Update costs	4,178
Update log prices	4,710
Update discount rate	4,710
Tree crop value this year	4,710

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.

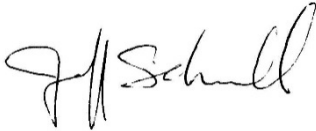
Harvest revenue

Based on the assumptions adopted for the purpose of this valuation, the owner of Windsor forest is projected to receive a total net stumpage revenue of approximately \$ 10,482,000 in year 2025.

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.

Windsor Forest Partnership
Financial Statements
for the Year Ended 28 February 2017

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Windsor Forest Partnership

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

	<u>Feb 2017</u>	<u>Feb 2016</u>	<u>Budget</u>
	\$	\$	\$
<u>Operating Revenue</u>			
Interest Received	812	2,830	720
Carbon Credit Sales (Net)	34,038	-	40,500
	<u>34,850</u>	<u>2,830</u>	<u>41,220</u>
<u>Forest Expenses</u>			
Fire Control	261	279	300
Management & Supervision Fees	7,498	8,354	10,360
	<u>7,759</u>	<u>8,634</u>	<u>10,660</u>
<u>Operating Expenses</u>			
Accountancy Fees	2,695	2,675	2,695
Administration	4,320	4,150	4,320
Audit Fees	1,575	1,575	1,575
Bank Fees	99	81	90
Depreciation for Period	483	513	483
Emission Trading Scheme	240	216	300
Legal Expenses	1,625	17	600
Meeting Costs	392	284	300
Repairs & Maintenance - Fences	-	140	2,000
Repairs & Maintenance - Tracks & Dams	288	8,063	5,350
Statutory Supervisor	1,196	1,325	1,250
Subscriptions - Forest Health, Research, Kyoto	54	148	90
Sundry Expenses	302	302	2,000
Valuation - Forest	375	676	290
Weed & Pest Control	-	1,096	1,850
	<u>13,644</u>	<u>21,262</u>	<u>23,193</u>
<u>Standing Charges</u>			
Insurance - Public Liability	416	416	401
Insurance - Plantations	15,074	10,962	11,182
Rates	7,070	6,587	6,876
	<u>22,560</u>	<u>17,965</u>	<u>18,459</u>
<u>Total Expenses</u>	<u>43,963</u>	<u>47,861</u>	<u>52,312</u>
<u>Loss for Tax Purposes</u>	<u>(9,113)</u>	<u>(45,031)</u>	<u>(11,092)</u>
Plantation Revaluation Increase (Decrease)	602,000	603,000	-
<u>Net Surplus/(Deficit)for Year</u>	<u>592,887</u>	<u>557,969</u>	<u>(11,092)</u>
Comprehensive Income	-	-	-
<u>Total Comprehensive Income</u>	<u>\$592,887</u>	<u>\$557,969</u>	<u>(\$11,092)</u>

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

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

	<i><u>Note</u></i>	<i><u>Capital Accounts</u></i>	<i><u>Retained Earnings</u></i>	<i><u>2017 Total</u></i>
Equity as at 1 March 2016		2,568,264	2,019,800	4,588,064
Total Comprehensive Income		0	592,887	592,887
Total Contributions From Partners		0	-	0
Total Transactions with Owners		0	-	0
Equity as at 28 February 2017		<u>2,568,263</u>	<u>2,612,687</u>	<u>5,180,950</u>

	<i><u>Capital Accounts</u></i>	<i><u>Retained Earnings</u></i>	<i><u>2016 Total</u></i>
Equity as at 1 March 2015	2,568,264	1,461,831	4,030,095
Total Comprehensive Income	0	557,969	557,969
Total Contributions From Partners	0	-	0
Total Transactions with Owners	0	-	0
Equity as at 29 February 2016	<u>2,568,264</u>	<u>2,019,800</u>	<u>4,588,064</u>

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

Windsor Forest Partnership

Statement of Financial Position As at 28 February 2017

	<u>Note</u>	<u>Feb 2017</u> \$	<u>Feb 2016</u> \$
<u>Current Assets</u>			
Calls in Arrears		15	20
Cash and Cash Equivalents	4	18,474	33,859
Goods & Services Tax		<u>2,164</u>	<u>2,918</u>
		20,653	36,797
<u>Non Current Assets</u>			
<u>Plantations</u>	5		
Plantation Value		4,108,000	3,505,000
Revaluation for Year		<u>602,000</u>	<u>603,000</u>
	6	4,710,000	4,108,000
<u>Property, Plant and Equipment</u>	7		
Land		444,000	444,000
Land Improvements		<u>7,571</u>	<u>8,054</u>
		451,571	452,054
<u>Total Assets</u>		<u>5,182,224</u>	<u>4,596,851</u>
<u>Less Liabilities</u>			
<u>Current Liabilities</u>			
Accounts Payable		780	8,138
Calls in Advance		<u>494</u>	<u>649</u>
		1,273	8,787
<u>Total Net Assets</u>		<u>\$5,180,951</u>	<u>\$4,588,064</u>
Represented by:			
<u>Equity</u>			
Capital Contributions per Schedule		2,568,264	2,568,264
Retained Earnings		<u>2,612,687</u>	<u>2,019,800</u>
		<u>\$5,180,951</u>	<u>\$4,588,064</u>

_____ Partner _____ Partner

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

Windsor Forest Partnership

Cashflow Statement For the Year Ended 28 February 2017

	<u>Note</u>	<u>Feb 2017</u> \$	<u>Feb 2016</u> \$
<u>Cash Flows from Operating Activities</u>			
Cash was provided from:			
Interest Received		812	3,024
Carbon Credit Sales (Net)		33,663	-
Goods & Services Tax		754	814
		<u>35,229</u>	<u>3,838</u>
Cash was applied to:			
Operating Expenses		<u>50,464</u>	<u>39,209</u>
		50,464	39,209
Net Cash inflow (outflow) from operating activities	8	<u>(15,235)</u>	<u>(35,371)</u>
<u>Cash Flows from Financing Activities</u>			
Cash was provided from:			
Calls on Participatory Securities		(150)	-
Net cash inflow (outflow) from financing activities	8	<u>(150)</u>	<u>-</u>
Net increase (decrease) in cash held		(15,386)	(35,371)
Cash at Start of Year		<u>33,859</u>	<u>69,231</u>
Cash at End of Year		<u><u>\$18,473</u></u>	<u><u>\$33,860</u></u>

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

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

The financial statements of Windsor 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 23 April 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 Windsor 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 Windsor Forest Partnership has voluntarily entered the Emission Trading Scheme ("ETS") in relation to 340 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.

Windsor Forest Partnership
Notes to the Financial Statements
For the Year Ended 28 February 2017

- 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 33 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 Windsor Forest Partnership is that of Afforestation. The partnership grows pinus radiata for the purpose of selling the harvest between 2019 and 2028.

Windsor Forest Partnership

Notes to the Financial Statements

For the Year Ended 28 February 2017

	<u><i>Feb 2017</i></u>	<u><i>Feb 2016</i></u>
	\$	\$
4. CASH AND CASH EQUIVALENTS		
B N Z Current Account	3,913	5,013
B N Z Deposit - Investment Fund	<u>14,560</u>	<u>28,847</u>
	<u><u>\$18,474</u></u>	<u><u>\$33,859</u></u>

Deposit - Investment Fund

The deposit is available to fund any future obligation that Windsor Forest Partnership may assume under its arrangement with other partnerships in the Roger Dickie Group Investment Fund. Windsor 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 Gisborne District. The Net Stocked Area of approximately 340 hectares was planted in 1991-96 (107ha) & 2000 (233ha). The forest is a consumable immature biological asset.

6. 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 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.

Windsor 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.

Windsor 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 a cost model which has been derived from current actual contract rates. Cartage distances are taken from the original feasibility reports. Until a pre-harvest inventory and harvest plan is completed, including where the logs will be sold, this cost could vary. 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.

7. PROPERTY, PLANT AND EQUIPMENT

	Opening Value	Additions/ Deletions	Closing Value
<u>Land and Improvements - 2016 Year</u>			
Cost - March 1999	465,580	-	465,580
Accumulated Depreciation	(13,013)	(513)	(13,526)
Net Book Value	<u>452,567</u>	<u>(513)</u>	<u>452,054</u>
 <u>Land and Improvements - 2017 Year</u>			
Cost - March 1999	465,580	-	465,580
Accumulated Depreciation	(13,526)	(483)	(14,009)
Net Book Value	<u>452,054</u>	<u>(483)</u>	<u>451,571</u>

The latest capital value set by Quotable Value for rating purposes in July 2014 as \$1,125,000

Windsor Forest Partnership

Notes to the Financial Statements

For the Year Ended 28 February 2017

	<u>Feb 2017</u>	<u>Feb 2016</u>
	\$	\$
8. CASH FLOW RECONCILIATION		
<u>Reconciliation of Cash Flows from Operating Activities.</u>		
Reported Surplus for Year	592,887	557,969
Non Cash Item - Depreciation	483	513
Non Cash Item - Forest Revaluation	<u>(602,000)</u>	<u>(603,000)</u>
	(8,630)	(44,518)
 Movements in Working Capital:		
Increase/(Decrease) in Accounts Payable	(7,359)	8,138
(Increase)/Decrease in Accrued Interest	-	194
(Increase)/Decrease in GST	<u>754</u>	<u>814</u>
	<u>(6,605)</u>	<u>9,146</u>
Net Cash Flow from Operating Activities	<u>(\$15,235)</u>	<u>(\$35,371)</u>
<u>Reconciliation of Cash Flows from Financing Activities</u>		
(Increase)/Decrease in Calls in Arrears	5	-
Increase/(Decrease) in Calls in Advance	<u>(155)</u>	<u>-</u>
Net Cash Flow from Financing Activities	<u>(\$150)</u>	<u>-</u>

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.

Windsor Forest Partnership

Notes to the Financial Statements

For the Year Ended 28 February 2017

10. EVENTS AFTER BALANCE DATE

There have been no significant events after balance date.

11. EMISSIONS TRADING SCHEME

Windsor Forest Trustee Limited has replaced Corporate Trust Limited as trustee holding the Partnership land as registered proprietor in trust for the Partnership. Windsor Forest Trustee Limited holds 83,338 NZUs (2016 - 75,962) 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 28 February 2017 is \$1,479,249 (2016 - \$721,639)

During the year, 2,480 NZU's were sold. Of the 83,338 NZU Units held at balance date, 52,426 are able to be sold without liability for future repurchase on harvest.

	<u><i>Feb 2017</i></u>	<u><i>Feb 2016</i></u>
	No.	No.
Opening Units Held	75,962	75,962
Emissions Trading Units Sold	(2,480)	-
Emissions Trading Units Surrendered	-	-
Emissions Trading Units Allocation	<u>9,856</u>	<u>-</u>
Closing Units Held	<u><u>83,338</u></u>	<u><u>75,962</u></u>

12. CAPITAL COMMITMENTS & OPERATING LEASES

There are no capital commitments, biological asset commitments nor operating leases as at balance date (2016 nil).

13. CONTINGENT ASSETS & CONTINGENT LIABILITIES

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

14. RELATED PARTIES

The partnership paid administration fees of \$4,320 (2016 - \$4,150) and management fees and forest expenses of \$9,531 (2016 - \$8,354) 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 \$780 (2016 - \$2,365). No related party debts have been written off or forgiven during the year.

15. 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.

Windsor Forest Partnership

Notes to the Financial Statements

For the Year Ended 28 February 2017

Forest Plantation

Windsor 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 2017.

16. PARTNERSHIP STRUCTURE

Partners have subscribed for Partnership Interests in the Partnership. The number of Partnership Interests 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 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. Roger Dickie No 27 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.

Windsor Forest Partnership
Notes to the Financial Statements
For the Year Ended 28 February 2017

17. 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.

Windsor Forest Partnership

IRD No 072-765-915

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

	EQUITY ACCOUNTS				TAX RETURN	
	Balance 2016	Calls for Year	Sales Entries	Profit or Loss	Balance 2017	Share of Tax Loss
Alpe, S G & E E	53,506	-	-	-	53,506	182
Asamar Limited	112,105	-	-	-	112,105	382
Rathbun, T	53,506	-	-	-	53,506	182
Betsy Holdings Limited	53,506	-	-	-	53,506	182
Brazier Holdings Limited	107,339	-	-	-	107,339	366
Bull, R J	53,506	-	-	-	53,506	182
Charleston Investments Limited	28,436	-	-	-	28,436	97
Cintam Enterprises Limited	107,011	-	-	-	107,011	365
Codyre, G N & M A	35,670	-	-	-	35,670	122
Corus, A	26,753	-	-	-	26,753	91
Ensor, G S	26,753	-	-	-	26,753	91
Germann, C & C	53,506	-	-	-	53,506	182
Gruendler, Y	107,011	-	-	-	107,011	365
Heatherdean Investments Limited	61,018	-	-	-	61,018	208
Hugentobler, P	29,963	-	-	-	29,963	102
Johnston, M S	26,753	-	-	-	26,753	91
Lavelle, W J	107,011	-	-	-	107,011	365
Matuku Forestry Holdings Limited	112,611	-	-	-	112,611	384
May, M & M as authorised agents	32,103	-	-	-	32,103	109
May, M	26,753	-	-	-	26,753	91
Middleton, B E and Legat, N M	53,506	-	-	-	53,506	182
Neutze, R J	27,338	-	-	-	27,338	93
O'Brien, D J	33,887	-	-	-	33,887	115
Ogilvie, K P	107,011	-	-	-	107,011	365
Pople, S C	91,323	-	-	-	91,323	311
Rainbow Futures Limited	57,044	-	-	-	57,044	194
Sablon, J-C	20,525	-	-	-	20,525	70
Shaukat, F & R	127,300	-	-	-	127,300	434
Sienna Investments Limited	29,621	-	-	-	29,621	101
Thomann, J-W	80,258	-	-	-	80,258	273
Timms, L R	53,506	-	-	-	53,506	182
Timms, P	53,506	-	-	-	53,506	182
Unger, S E (deceased)	26,753	-	-	-	26,753	91
Wells, A J	59,413	-	-	-	59,413	202
Wells, G T	59,413	-	-	-	59,413	202
Werner, R E	107,011	-	-	-	107,011	365
Wilkinson, D C	62,837	-	-	-	62,837	214
William Martin Family Ltd Partnership	267,528	-	-	-	267,528	911
Zingel Quail Ridge Limited	35,670	-	-	-	35,670	122
Roger Dickie No 27 Limited - see Note 15	-	-	-	-	-	365
	2,568,264	-	-	-	2,568,264	9,113
Retained Earnings	2,019,800	-	-	592,887	2,612,687	
Total Equity	4,588,064	-	-	592,887	5,180,951	

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