

Pukekōwhai Forest Investment

2 - Supporting Financial and Other Related Information

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Suite of Documents

This document is one of three documents which report all relevant information in respect of the Pukekōwhai Forest Proposal. This document is the second in the suite and sets details on the contributed value and share allocation of each partner for the Pukekōwhai Proposal. The other two documents are -

1 – Pukekōwhai Forest Proposal Summary

This document summarises the principles and transactions of the Pukekōwhai Forest Proposal and partner exit option.

3 – Pukekōwhai Forest Investment Key Financial Details

This document sets out the key financial details on the Pukekōwhai Forest Investment, the investment which continues for the second rotation.

Forest Enterprises

16 April 2021

Participant Forest Details

Refer to the map entitled *Pukekōwhai Group Replant Areas*.

The following details and areas have been updated from those provided at the 26 March 2021 investor meeting, and are based on the latest information available to Forest Enterprises.

Gross Land Area

The Gross Land Areas (title areas) of the Participant Forests and Projected (second rotation) Net Stocked Areas are -

Forest Name	Gross Land Area	%	Projected Net Stocked Area	%
Ratahuia	302 hectares	29%	227.1 hectares	27.9%
Te Hau	346 hectares	33%	282.5 hectares	34.7%
Te Puhi	402 hectares	38%	304.5 hectares	37.4%
Total	1,050 hectares	100%	814.1 hectares	100%

This table identifies the relative scale of each forest by gross land area. Te Puhi is the largest property at 402 hectares (38% of total). Ratahuia is the smallest property at 302 hectares (29%).

This Projected Net Stocked Area identifies the relative scale of each forest by net stocked area. Comparison of the net stocked area is the more appropriate comparison as it represents the productive forest area. Te Puhi is the largest forest at 305 net stocked hectares (37%). Ratahuia is the smallest forest at 227 net stocked hectares (28%).

Status of the Second Rotation Replant

The status of the net stocked area of second rotation trees already planted (Existing Hectares at 31 December 2020), plus the projected areas to be planted as harvesting continues (Projected Hectares), of the Participant Forests are -

Forest Name	Existing Hectares	Projected Hectares	Total Hectares
Ratahuia	105.3	121.8	227.1
Te Hau	145.3	137.2	282.5
Te Puhi	25.3	279.2	304.5
Johnsons Block	2.5	0	2.5
Total	278.4	538.2	816.6

This table identifies the status of the harvest/replant of each forest. Included in the table is Johnsons Block, which was previously acquired by Forest Enterprises to assist with access, given its position between Te Hau and Ratahuia.

Treecrop Values

The new investment, not the Participant Forests, will have the ongoing responsibility to pay for replanting costs for trees replanted during 2021 and thereafter.

The cashflows underlying the proposal are based on a) the new Investment meeting all replanting costs from 2021 onwards and b) paying for the land and already replanted treecrop at the time of transfer.

The Participant forests will have a forestry right over unharvested first rotation trees. So, if the land is transferred to a new investment, the existing partnerships will cease when all first rotation trees are harvested.

The optimal time for the set-up of the Pukekōwhai Forest is in the first half of 2021. For this to occur, the second rotation trees contributed by each Participant Forest (Existing Hectares) above must be valued now.



The Proposal assumes that -

1. The existing replanted second rotation trees (replanted from 2011 to 2015) will be transferred based on the valuation methodology applied by the independent valuer, Mark Morice of Morice Limited (property and forestry valuers and advisers). This is based on using a discounted cashflow analysis using a 7.75% pre-tax discount rate to determine value.
2. The existing replanted second rotation trees (replanted in the years 2016 up to and including 2020) will be sold for a value determined on the basis of actual cost of establishment (bills paid to date), plus interest compounded at 2% per annum.

Based upon these assumptions, the resulting Tree Values for each Participant Forest as at 31 March 2021 are as follows -

Forest Name	Tree Value Planted up to 2015	Tree Value Planted from 2016	Total Value
Ratahuia	\$224,000	\$92,000	\$316,000
Te Hau	\$0	\$258,700	\$258,700
Te Puhi	\$0	\$49,300	\$49,300
Totals	\$224,000	\$400,000	\$624,000

Land Value Summary

The land values were assessed by Morice Limited. Mark Morice has specific expertise in forestry valuation, including various responsibilities for the forestry rentals for the Crown Forestry Licenses (www.morice.co.nz).

The detail of the land valuations was completed in April 2021. The full valuation report is available. The land valuations assessed were as follows -

Forest Name	Land Value
Ratahuia	\$635,000
Te Hau	\$956,000
Te Puhi	\$939,000
Totals	\$2,530,000

Refer to Appendix 1 in the [Morice Limited Market Valuation Report](#) where full details of the composition of these land values is set out.

Total Value and Share Allocation

Total Value of Land and Trees Contributed by Participant Forest

The table below sets out the land and tree value of each Participant Forest, and the resulting percentage contribution to the Pukekōwhai Forest.

Forest Name	Land Value	Tree Value	Total Value	Percentage
Ratahuia Forest	\$635,000	\$316,000	\$951,000	30.152%
Te Hau Forest	\$956,000	\$258,700	\$1,214,700	38.513%
Te Puhi Forest	\$939,000	\$49,300	\$988,300	31.335%
Totals	\$2,530,000	\$624,000	\$3,154,000	100.000%

Accuracy to three decimal places of the percentage is required to produce the correct (and identical) value per share for each Partner in each Participant Forest.



Share Allocation by Participant Forest

Assuming there are a total of 80,000 shares in the Pukekōwhai Forest, the table below sets out the shares which will be allocated to each Participant Forest (based on the percentage contribution to the total value in the table above).

Forest Name	Percentage	Shares Allocated
Ratahuia Forest	30.152%	24,122
Te Hau Forest	38.513%	30,810
Te Puhi Forest	31.335%	25,068
Totals	100.000%	80,000

The Proposal then allocates the shares to the Partners of each Participant Forest in proportion to their shareholding in the Participant Forest.

Refer to the separate headings for each of Ratahuia, Te Hau and Te Puhi showing **[Forest Name] Partners - Share Allocation** for details of the allocation of the shares to each Partner in the Pukekōwhai Forest on the following 3 pages.

Refer to the section *Total Value and Share Allocation* for explanatory details. Small (1 share) rounding differences could have occurred within the Partner share allocation process reflected in the tables which are unavoidable (and not considered material).



Share Allocations by Participant Forest

Ratahuia Partners – Share Allocation

Surname	Initials	Number of Partnership Shares	% Partnership Shares	Pukekowhai Share Allocation Entitlement	Share of Contributed Value
		12,800	8.00%	1,930	\$76,089
		6,400	4.00%	965	\$38,045
		6,400	4.00%	965	\$38,045
		3,467	2.17%	523	\$20,619
		3,467	2.17%	523	\$20,619
		6,700	4.19%	1,010	\$39,819
		6,400	4.00%	965	\$38,045
		1,000	0.63%	151	\$5,953
		1,000	0.63%	151	\$5,953
		6,400	4.00%	965	\$38,045
		6,667	4.17%	1,005	\$39,622
		3,200	2.00%	482	\$19,003
		6,400	4.00%	965	\$38,045
		3,200	2.00%	482	\$19,003
		5,267	3.29%	794	\$31,303
		6,400	4.00%	965	\$38,045
		6,400	4.00%	965	\$38,045
		6,400	4.00%	965	\$38,045
		6,400	4.00%	965	\$38,045
		7,167	4.48%	1,080	\$42,579
		6,400	4.00%	965	\$38,045
		1,965	1.23%	296	\$11,670
		6,400	4.00%	965	\$38,045
		19,200	12.00%	2,894	\$114,095
		7,500	4.69%	1,131	\$44,589
		7,000	4.38%	1,055	\$41,593
Totals		160,000	100.00%	24,122	\$951,000



Te Hau Partners – Share Allocation

Surname	Initials	Number of Partnership Shares	% Partnership Shares	Pukekōwhai Share Allocation Entitlement	Share of Contributed Value
		3,865	1.93%	595	\$23,458
		1,000	0.50%	154	\$6,072
		4,148	2.07%	639	\$25,193
		7,706	3.85%	1,187	\$46,798
		1,000	0.50%	154	\$6,072
		10,806	5.40%	1,665	\$65,643
		9,709	4.85%	1,496	\$58,981
		3,081	1.54%	475	\$18,727
		9,039	4.52%	1,393	\$54,920
		500	0.25%	77	\$3,036
		3,212	1.61%	495	\$19,516
		2,250	1.13%	347	\$13,681
		10,018	5.01%	1,543	\$60,834
		900	0.45%	139	\$5,480
		6,071	3.04%	935	\$36,863
		1,538	0.77%	237	\$9,344
		782	0.39%	120	\$4,731
		3,000	1.50%	462	\$18,215
		1,500	0.75%	231	\$9,107
		1,500	0.75%	231	\$9,107
		782	0.39%	120	\$4,731
		1,500	0.75%	231	\$9,107
		9,000	4.50%	1,386	\$54,644
		8,000	4.00%	1,232	\$48,572
		2,250	1.13%	347	\$13,681
		15,000	7.50%	2,311	\$91,112
		350	0.18%	54	\$2,129
		711	0.36%	110	\$4,337
		700	0.35%	108	\$4,258
		500	0.25%	77	\$3,036
		8,882	4.44%	1,368	\$53,934
		8,000	4.00%	1,232	\$48,572
		4,996	2.50%	770	\$30,358
		3,000	1.50%	462	\$18,215
		5,270	2.64%	812	\$32,014
		8,473	4.24%	1,305	\$51,450
		500	0.25%	77	\$3,036
		4,000	2.00%	616	\$24,286
		8,900	4.45%	1,371	\$54,052
		8,339	4.17%	1,285	\$50,662
		8,000	4.00%	1,232	\$48,572
		4,475	2.24%	689	\$27,164
		2,667	1.33%	411	\$16,204
		2,667	1.33%	411	\$16,204
		1,413	0.71%	218	\$8,595
Totals		200,000	100.00%	30,810	\$1,214,700



Te Puhi Partners – Share Allocation

Surname	Initials	Number of Partnership Shares	% Partnership Shares	Pukekōwhai Share Allocation Entitlement	Share of Contributed Value
		6,400	4.00%	1,003	\$39,543
		2,133	1.33%	334	\$13,168
		3,200	2.00%	501	\$19,752
		3,200	2.00%	501	\$19,752
		3,200	2.00%	501	\$19,752
		3,200	2.00%	501	\$19,752
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		3,200	2.00%	501	\$19,752
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		16,000	10.00%	2,507	\$98,838
		9,600	6.00%	1,504	\$59,295
		12,800	8.00%	2,005	\$79,047
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		3,200	2.00%	501	\$19,752
		4,267	2.67%	668	\$26,336
		6,400	4.00%	1,003	\$39,543
		6,400	4.00%	1,003	\$39,543
		3,200	2.00%	501	\$19,752
		3,200	2.00%	501	\$19,752
		6,400	4.00%	1,003	\$39,543
Totals		160,000	100.00%	25,068	\$988,300



Assignment Option Details

Overview and Exercise Date

An *Assignment Option* is an *option to sell at an agreed price on a specific date*.

Fundamental to this Proposal is the granting to each Partner in each Participant Forest an Assignment Option in respect of the shares they are allocated in the Pukekōwhai Forest. This Assignment Option guarantees each Partner the opportunity to sell all (or some) of the shares they are allocated in the Pukekōwhai Forest at a fixed price on the nomination date.

The nomination date will be when the Product Disclosure Statement (PDS) is available or by 30 September 2021, whichever is earlier assuming all 3 partnerships vote to proceed with the proposal.

Other relevant details -

1. Forest Enterprises Growth Limited is the purchasing party under the Assignment Option.
2. A Partner need not make a decision regarding the Assignment Option until notice is given of the nomination date.
3. There is no compulsion on a Partner to sell any shares under the Assignment Option other than those who own an uneconomic shareholding. An uneconomic shareholding has been assessed as being an entitlement to less than 200 shares in Pukekōwhai Forest. Exercising the Assignment Option is entirely at each Partner's discretion.
4. Those few partners who have an uneconomic shareholding can buy additional shares on the Assignment Exercise Date if they choose. See the following section for further details.

Assignment Option Guaranteed Price

Refer to the separate headings *[Forest Name] - Assignment Option Exercise Price* for details of the Assignment Option Exercise Price guaranteed for each Partner.

The nature of the Assignment Option is that it -

1. Provides price and timing certainty for each Partner who decides to sell some (or all) of their shares in the Pukekōwhai Forest; and
2. Transfers all the risk and uncertainty to Forest Enterprises.

Consequently, the Assignment Option Exercise Price is 12.5% less than the calculated value used for allocation of the shares to Partners in the Pukekōwhai Forest. Assuming Forest Enterprises successfully on-sells the shares for the calculated value, this deduction is effectively an underwriting fee from which Forest Enterprises sales and holding costs can be recovered.

If partners opt to retain their entitlement to their shares in Pukekōwhai Forest Investment, they can buy additional shares at the Assignment Option Exercise Price.

Assignment Option Exercise Price in Context

The calculated value used for the allocation of shares is not the market value for each Participant Forest. This would only be determined if a Participant Forest was offered for sale. The market for young second rotation forests is very thin, with most buyer interest focused on mid-rotation or older forests closer to harvest. If put up for sale, the actual price achieved could therefore be materially different to the calculated value used, and could be less.

Most forests are sold at the conclusion of harvest. The Assignment Option is available around one year, two years and three years earlier than each of Ratahuia, Te Hau and Te Puhi respectively would normally be sold.



Assignment Option Exercise Price by Participant Forest

Ratahuia Partners – Assignment Option Exercise Price

Surname	Initials	Pukekōwhai Share Allocation Entitlement	Assignment Option Exercise Price
		1,930	\$66,578
		965	\$33,289
		965	\$33,289
		523	\$18,042
		523	\$18,042
		1,010	\$34,841
		965	\$33,289
		151	\$5,209
		151	\$5,209
		965	\$33,289
		1,005	\$34,669
		482	\$16,627
		965	\$33,289
		482	\$16,627
		794	\$27,390
		965	\$33,289
		965	\$33,289
		965	\$33,289
		965	\$33,289
		965	\$33,289
		1,080	\$37,256
		965	\$33,289
		296	\$10,211
		965	\$33,289
		2,894	\$99,833
		1,131	\$39,016
		1,055	\$36,394

Refer to the section *Assignment Option Details* for explanatory details.



Te Hau Partners – Assignment Option Exercise Price

Surname	Initials	Pukekōwhai Share Allocation Entitlement	Assignment Option Exercise Price
		595	\$20,526
		154	\$5,313
		639	\$22,044
		1,187	\$40,948
		154	\$5,313
		1,665	\$57,438
		1,496	\$51,608
		475	\$16,386
		1,393	\$48,055
		77	\$2,656
		495	\$17,076
		347	\$11,971
		1,543	\$53,229
		139	\$4,795
		935	\$32,255
		237	\$8,176
		120	\$4,140
		462	\$15,938
		231	\$7,969
		231	\$7,969
		120	\$4,140
		231	\$7,969
		1,386	\$47,813
		1,232	\$42,501
		347	\$11,971
		2,311	\$79,723
		54	\$1,863
		110	\$3,795
		108	\$3,726
		77	\$2,656
		1,368	\$47,192
		1,232	\$42,501
		770	\$26,563
		462	\$15,938
		812	\$28,012
		1,305	\$45,019
		77	\$2,656
		616	\$21,250
		1,371	\$47,296
		1,285	\$44,329
		1,232	\$42,501
		689	\$23,769
		411	\$14,178
		411	\$14,178
		218	\$7,520

Refer to the section *Assignment Option Details* for explanatory details.



Te Puhi Partners – Assignment Option Exercise Price

Surname	Initials	Pukekōwhai Share Allocation Entitlement	Assignment Option Exercise Price
		1,003	\$34,600
		334	\$11,522
		501	\$17,283
		501	\$17,283
		501	\$17,283
		501	\$17,283
		501	\$17,283
		1,003	\$34,600
		1,003	\$34,600
		1,003	\$34,600
		1,003	\$34,600
		501	\$17,283
		1,003	\$34,600
		1,003	\$34,600
		2,507	\$86,483
		1,504	\$51,883
		2,005	\$69,166
		1,003	\$34,600
		1,003	\$34,600
		1,003	\$34,600
		1,003	\$34,600
		501	\$17,283
		668	\$23,044
		1,003	\$34,600
		1,003	\$34,600
		501	\$17,283
		501	\$17,283
		1,003	\$34,600

Refer to the section *Assignment Option Details* for explanatory details.

