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Agenda

- Matters Impacting Harvest
(Forest Specific and Operating Environment)
- Recommended Solution to Maximise your Harvest Return – Collective Harvest
- Status of the Investments
- Mechanics of the Collective Harvest by Joint Venture
- Harvest Reporting and Distributions
- Second Rotation and Exit Options
- Next Steps

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Matters Impacting Harvest



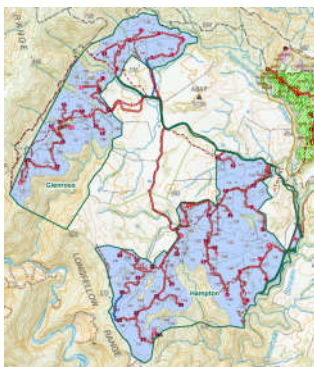
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Matters Impacting Harvest

Forest Specific



Hawkes Bay Operating Environment



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Matters Impacting on the Harvest

Forest Specific Matters

Forest specific matters start with a **Harvest Plan**

- The infrastructure (roads and landings) currently identified is deemed necessary for a cost-effective harvest
- Ignores age classes
- Achieves required average tree age of 30 years
- Has harvesting planned early 2022
- Confirms that we should be able to cost-effectively harvest **all** of each forest
- Is dynamic and **will** change in response to conditions on the ground and issues arising during harvest



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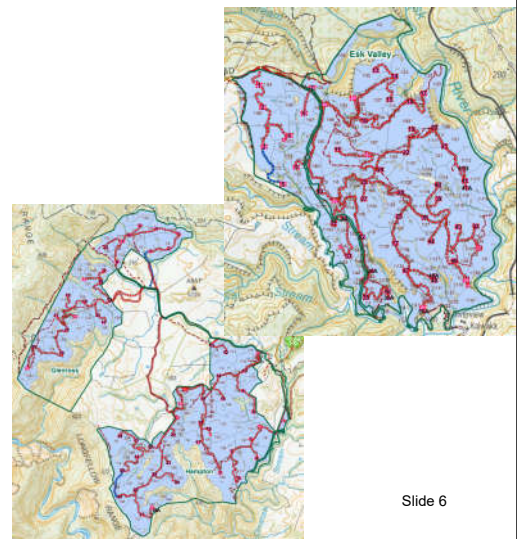
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Matters Impacting on the Harvest

Forest Specific Matters

- The plan involves building a significant amount of infrastructure within the forest
- The Harvest Plan identifies options and challenges
 - Options are good!
 - Challenges have to be addressed
- Some of the challenges and options identified are:
 1. Major valley systems to cross
 2. Fragile soils
 3. Steep slopes
 4. Streams and river crossings
 5. Limited road entrances
 6. Mix of harvesting systems (hauler vs. ground-based)



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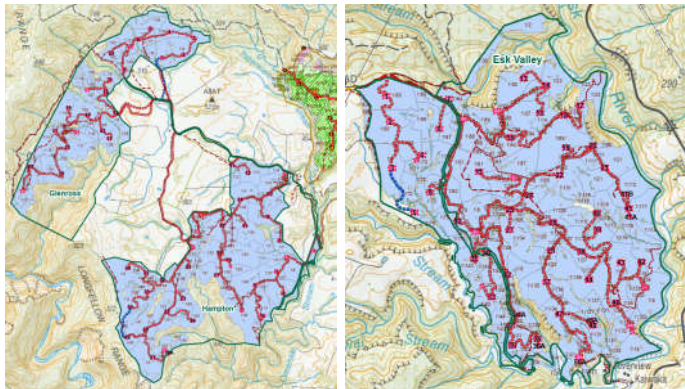
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Matters Impacting on the Harvest

Operating Environment

- Constraints posed by the operating environment in the Hawkes Bay
- Regional issues impact on harvesting



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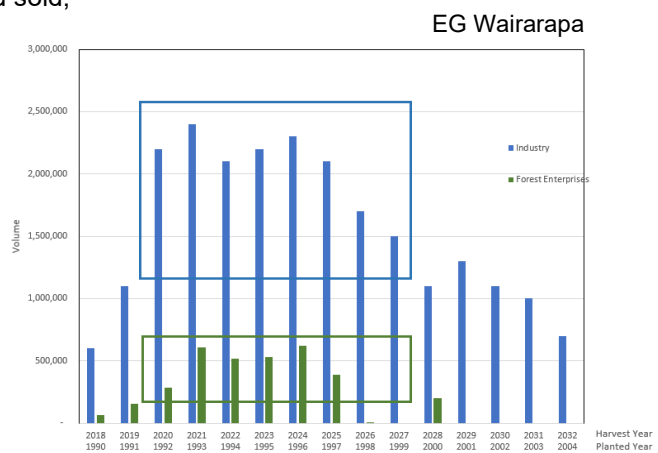
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Matters Impacting on the Harvest

Operating Environment

- Many of our forests planted during 1990s planting boom
- 1990s boom plantings are to be harvested and sold, not just Forest Enterprises Investors' trees
- Volume to go to:
 - Local Mills
 - Pan Pac Napier – for pruned and chip
 - Kiwi Dannevirke – for pruned
 - Balance of volume to be exported



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Matters Impacting on the Harvest

Operating Environment

- Potential bottlenecks in the supply chain:
 - Logging contractors
 - Trucking contractors
 - Roading contractors
 - Transport to sawmills and port
 - Napier Port



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Matters Impacting on the Harvest

Operating Environment

- Status of Forest Enterprises in Hawkes Bay operating environment
 - We are currently harvesting more than 70,000 tonnes p.a. in Hawkes Bay for other managed forests
 - Able to share infrastructure capacity already secured
 - Long term contracts with logging & cartage contractors
 - Supplying up to 25% of the harvest volume to local mills
 - Export via Napier Port



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Matters Impacting on the Harvest

Infrastructure to address bottlenecks

- Partnership arrangement with TPT Forests Ltd for export from Napier Port
 - TPT is a significant log export company based in New Zealand
 - Open book agency at fixed fee



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Matters Impacting on the Harvest

Operating Environment

- As noted at the outset of this section, we cannot plan for the harvest of individual forests without consideration of:

1. Constraints posed by the Operating Environment

AND

2. Forest Enterprises responsibility to all the other MIS forests we manage.



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Recommended Solution to Maximise Harvest Return



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Forest Enterprises Solution for Hawkes Bay Forests

- Must have a harvest solution for every forest under management within the constraints posed by the Regional Operating Environment which also:
 - Maximises the investment return for each forest
 - Minimises the risks for each forest
 - Provides options to address the forest specific matters in each forest (addressed earlier)
 - Complies with terms of Carbon Lease and meets tree age of 30 years
- AND**
- Is also logical for the second rotation
 - There will be a second rotation with or without some or all of the existing Investors (to be discussed later)



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Hawkes Bay Combined Harvest

The output from accommodating all of these factors is:

- A projected sustainable maximum Hawkes Bay combined harvest volume per annum

Harvest Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Esk/GlenR/Hampt	62000	60000	60000	60000	60000	60000	60000	60000	130000	150000	80000	80000

- A logical reduction in the number of individual HB forest entities from 4 to 2
- Anticipate a continuous harvest program through until 2034 – time in market minimises market risk
- Harvest date was based upon harvest at tree age 28 years
 - Have always reported that there would be a spread – harvesting a single age class in 1 year is not possible
 - Target average tree age now 30 years
- Harvest to commence early 2022
 - Esk Valley’s original projection showed harvest 2024-2025
 - Glenross’ original projection showed harvest 2024
 - Hampton’s original projection showed harvest from 2024



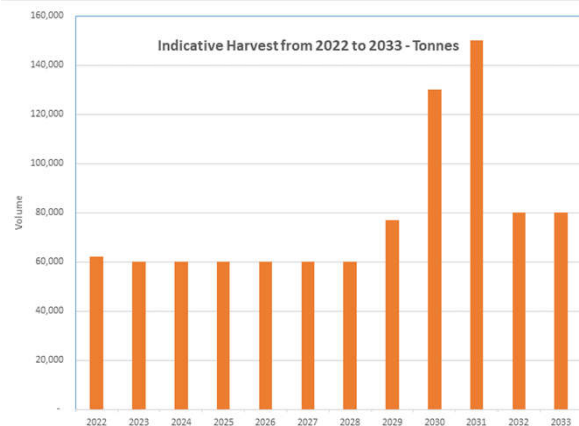
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Hawkes Bay Combined Harvest

- Projected harvest spread targets the necessary average harvest age of 30 years
 - Younger trees will have less than the average volume therefore return less value
 - Older trees will have higher than the average volume therefore return higher value
 - Anticipate overall value outcome to be about the same
- Spread does have an impact on the timing of distributions (discussed later)



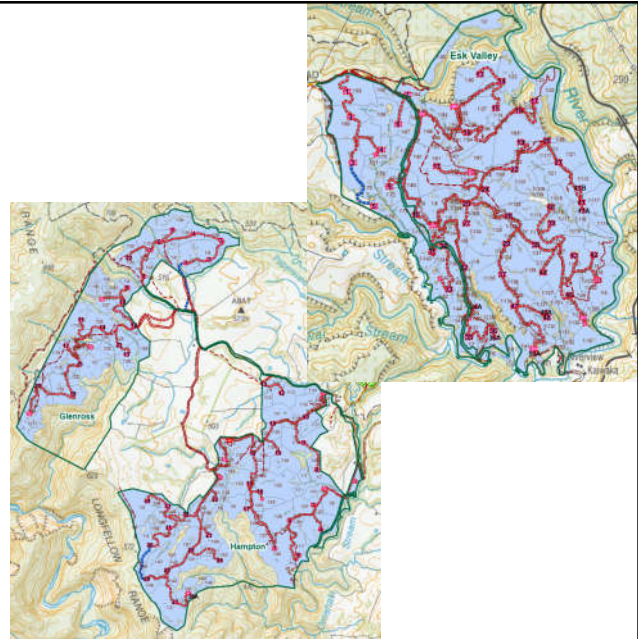
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Hawkes Bay Combined Harvest

Why does this solution make sense?

- Forests have complementary age classes
- Combined harvest program of 1,140 hectares (great scale for economies and risk mitigation)
- Harvesting as one program solves the early and late harvest issue:
 - Becomes irrelevant where the early and late harvest occurs between the 3 forests
 - BECAUSE the total harvest can achieve an average harvest age for the total program of 30 years
 - The younger trees will have less volume and value, BUT the older trees will have more volume and value



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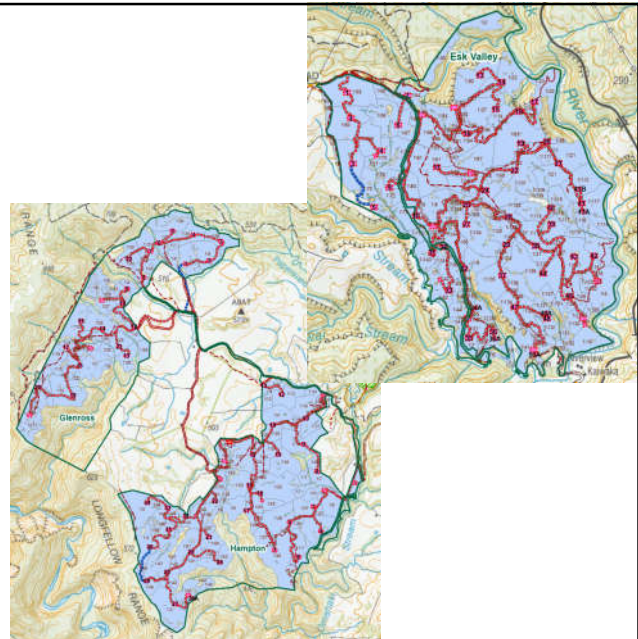
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Hawkes Bay Combined Harvest

Why does this solution make sense? (cont)

- Harvesting as one program provides more options to help address the challenges and issues facing harvest (discussed earlier)
- Creates a forest which is logical for the second rotation



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Hawkes Bay Combined Harvest

Why does this solution make sense? (cont)

- Combined forest will harvest continuously for 12 years, finishing around 2033
- Positive outcomes:
 - Longer market exposure should deliver the long run average log price
 - Early distributions
 - Projected average crop age at harvest 30 years
 - Preserve favourable option for those wishing to exit



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Questions



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Status of the Investments



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Financial Status of Investments

Calls Paid

	Esk Valley	Glenross	Hampton
Prospectus Call Projection	\$ 20,324	\$ 12,665	\$ 13,187
Actual Calls (Gross Contributions)	\$ 19,094	\$ 11,632	\$ 11,175
Difference	\$ (1,230)	\$ (1,033)	\$ (2,012)

Projected Financial Return

	Esk Valley	Glenross	Hampton
Balance Date	31-Mar-21	31-Dec-20	31-Mar-21
Prospectus Pre-tax Return	\$ 154,474	\$ 68,096	\$ 70,779
Projected Pre-tax Return	\$ 121,089	\$ 59,685	\$ 59,285
Actual Investment (Gross Contributions)	\$ 19,094	\$ 11,632	\$ 11,175

- Projecting a solid return for a long-term investment



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Collective Harvest by Joint Venture



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Hawkes Bay Collective Harvest

Collective Harvest Objectives

- To ensure the forests of each participant MIS can be harvested
- To maximise the opportunity for a better harvest outcome for each MIS
- To minimise the risks for each MIS including crop, access to contractors, access to domestic markets, access to port
- To aim to achieve an average age at harvest of 30 years

Maximise Return and Minimise Risk



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Hawkes Bay Collective Harvest

Collective Harvest Solution

- Proposal is NOT to amalgamate for harvest
 - To do so would create harsh and unacceptable tax consequences
 - A favourable Binding Ruling has been issued by Inland Revenue
- Proposal is to establish a Joint Venture with
 1. Agreed share of the total harvest revenue passing from the Joint Venture to each of the two existing forests
 2. Requirement for a Land LP which owns the aggregated land and second-rotation trees – jointly owned by participant JV investments
 - Fair equitable allocation of shares in both Harvest JV and Land LP
 - Forestry Right required for tree crop in Harvest JV
 - Existing forests continue to operate as stand-alone investments until wound up at the conclusion of harvest



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Hawkes Bay Collective Harvest

1. Allocation of harvest share

- There is a common sense allocation measure solution without need for argument, nor consultants
- This is to allocate according to the **Forest Crop Value** methodology in the Annual Report (page 7)

Esk Valley Forest Investment
Financial Report 31 March 2021



Glenross Forest Investment
Financial Report 31 December 2020



Hampton Forest Investment
Financial Report 31 March 2021



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Hawkes Bay Collective Harvest

1. Allocation of harvest shares

- The **Forest Crop Value:**
 - Accommodates differences in:
 - Net stocked area
 - Age classes
 - Forest crop qualities
 - Specific infrastructure for each forest area
 - Harvest costs
 - Assumes harvest at age 30
 - The harvest of each forest in the theoretical perfect scenario

Land and Trees	Forest			Total
	Esk Valley	Glenross	Hampton	
Title Area (ha)	580.0	364.7	496.4	1,441
Total Net Stocked Area (ha)	502.8	226.4	411.5	1,141
Harvest				
Yield (t/ha)	868.2	857.3	807.2	
Total Tonnage	436,531	194,093	332,163	962,786
Harvest Road Distance (km)	19.6	7.4	13.5	40
Metal (m3)	23,466	8,928	16,194	48,588
Metal (loads)	1,304	496	900	2,699
Metal Truck Movements	2,607	992	1,799	5,398
Road Density (m/ha)	38.9	32.9	32.8	
# Total Planned Landings	60	23	37	120
NSA per Landing (ha)	8.5	10.2	11.9	12
Log tonnage	436,531	194,093	332,163	962,786
Logs (loads)	14,551	6,470	11,072	32,093
Log Truck Movements	29,102	12,940	22,144	64,186
% G/Based	43	80	59	56
% Hauler	57	20	41	44
Balance Date	31-Mar-21	31-Dec-20	31-Mar-21	



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Hawkes Bay Collective Harvest

1. Allocation of harvest shares

- AND the **Forest Crop Value:**
 - Complies with Accounting Standards
 - Complies with NZIF standards
 - Is audited
 - An existing and reliable figure

Percentage Shares = The percentage of each Managed Investment Scheme's forest crop value to the total of the forest crop values for all MIS in the joint venture



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Hawkes Bay Collective Harvest

1. Allocation of harvest shares

- **Indicative calculation** using latest figures

	Esk Valley	Glenross	Hampton
Balance Date	31-Mar-21	31-Dec-20	31-Mar-21
Forest Crop Value in Annual Report	\$ 12,539,995	\$ 5,033,592	\$ 8,109,111
Percentage of Total	49%	20%	32%

- **NOTE**
 - These figures are indicative only
 - We will carefully review the data assumptions and refresh all the inputs
- The indicative percentages seem reasonable given the forest differences (Net Stocked Area, Projected Yield, Crop Age, Cost of Infrastructure)



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Hawkes Bay Collective Harvest

2. Allocation of shares in Land LP

- Forest Crop Value used for collective harvest shares reflects all variables relevant to the *current crop and its harvest*
- But – the allocation calculation for Land LP must accommodate different variables – need to identify equitable relative value between the two investments in Land LP
- **Land Market Value + Land Expectation Value** combination recommended by Mark Morice, forestry land valuer
 - Using a composite of 80% Market Value + 20% Indicative Land Expectation Value will produce values fit for the unique purpose they are required
- NB: Therefore, allocation % will be different for each participant investment for their share of Harvest JV and for Land LP



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Questions



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Harvest Reporting and Distributions



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Harvest Reporting & Distributions

- Monthly reporting, with special quarterly reports which notes any upcoming distribution payments



Harvest Reporting & Distributions

Distributions

- We have distributed \$90m+ to investors since April 2017
- It's *your* money
- Credited to nominated bank account
- Distributions will be approximately quarterly (not in annual lump sums)
- Limited surpluses at the beginning of harvest
 - Forward investment in roading
- Funding required for replant (more to come on this later)



Second Rotation & Exit Options



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Second Rotation and Exit Options

When will replanting for the second rotation occur?

- The second rotation forest will be planted progressively during harvest because:
 - Harvesting is a permitted activity **provided** harvested areas are replanted within 18 months
- Areas harvested by Christmas will typically be replanted the following winter
- Replanted trees are owned with the land by Land LP ready for second rotation investment
- Replanting has a consequential impact on distributions as some of the harvest cash (approximately \$2,000 per hectare) will be used to fund the replant



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Second Rotation and Exit Options

Investors are *not* trapped in the second rotation investment

- You signed up for 1 investment rotation, therefore you must be able to exit around the conclusion of harvest
- Forest Enterprises' responsibility is to meet the expectations of all Investors, including those who want to retain the value invested by the first rotation for future generations

Options to exit:

- **Plan A:** Replanted trees, in a new LP, are promoted as a new investment which can occur prior to completion of harvesting if the correct structures are put in place
- **Plan B:** Sell the second rotation's land and replanted trees
 - The same factors which make the replanted forest an attractive investment, make it attractive to parties wishing to buy the underlying land and trees



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Second Rotation and Exit Options

Mechanics of setting up the second rotation investment

1. Each investment grants itself a Forestry Right
 - Forestry Right is over the mature trees being harvested under the Joint Venture which remain the property of each existing investment (subject to the Joint Venture)
2. Each investment transfers its land (subject to the Forestry Right) or its remaining mature crop to Land LP in preparation for the second rotation investment
3. The investments will own shares in the Land LP, ready for selling as a new investment when harvest is nearer completion

Forest Name Here
Block Name Here

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forestenterprises.co.nz



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Second Rotation and Exit Options

Mechanics of setting up the second rotation investment

4. Around the conclusion of harvest, a Product Disclosure Statement is issued and the second rotation shares received by each Investment for the sale of the Land LP
 - Are then allocated to each Esk Valley, Glenross & Hampton Investor (or whomever they nominate)
 - Could be family members or trust
 - Allocation is in proportion to share allocation in Land LP



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Second Rotation and Exit Options

Mechanics of setting up the second rotation investment

Investors will therefore:

- Continue to hold their shares in the original investments
 - Which will receive distributions arising from the Joint Venture harvest program according to agreed share allocation
 - And own its proportionate share of Land LP and second rotation plantings



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Second Rotation and Exit Options

Costs and other matters relating to the second rotation investment

- How much will it cost to establish the Harvest JV and Land LP
 - Forest Enterprises proposes to charge
 - Establishment fee for Harvest JV and Land LP of approximately \$10k per participant forest
 - \$80 per 200-shares (1 unit)
 - (No double charges for management of Harvest JV / Land LP)
- Other ongoing costs (charged once only)
 - Standard per hectare fee (\$28 per hectare)
 - Standard harvest management fee \$3 per tonne + 2.5% of net stumpage
 - Replanting costs (main cost), which will arise regardless
 - Minimal other investment related costs (total management fees remain the same, but shift as harvest progresses from existing investments to second rotation investment)
- How much will it cost to exit the second rotation investment?
 - Forest Enterprises will cap the set-up cost at the Real Estate commission cost were the land & trees sold to a third party



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Second Rotation and Exit Options

Exit Option is to sell the second rotation shares

- At or near the conclusion of harvest the Esk Valley, Glenross and Hampton investments will conclude
- If you are planning to exit (i.e. not continue for the second rotation), you will plan to sell some or all of your shares in the second rotation investment
 - Sale of these shares releases the cash for -
 - Your share of the value of the land
 - Your share of the investment made in the second rotation crop (planted as harvest has occurred)
 - Your share of any remaining unharvested mature crop



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Second Rotation and Exit Options

Exit Option is to sell the second rotation shares

- When will you sell?
 - Technically you can sell at anytime however...
 - Greatest value will be when the profile of the second rotation crop is known, which will be near the end of harvest
- Forest Enterprises expects to make an exit option available
 - Expect to make proposal well before conclusion of harvest
 - Do not have to sell to Forest Enterprises
 - Investors wishing to purchase more shares will be able to so
- Can sell some of your shares and keep the balance



Questions



Next Steps



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Investor Decision Making

- Decision-making completed in time for harvest commencement
- Finalise the proposal for investors to consider in the coming weeks, including updated cashflow projections
- Vote on the Collective Harvest Joint Venture Proposal, with remaining supporting information
 - Separate formal decision required by each investment – special resolution
 - The proposal will not proceed if one investment does not pass the resolution
- We have similar processes underway for many other investments we manage – each forest group has some unique characteristics:
 - 5 collective harvest JVs already underway (16 investments)
 - 4 forest groupings voting before Christmas (13 investments)
 - 3 forest groupings voting in the new year (8 investments)



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Thank you!



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