

Te Karaka Forest Investment

Investment Report

26 August 2023



Te Karaka Forest

A holding of 133 shares in the Te Karaka forest investment available for purchase by tender, facilitated by Forest Enterprises.	
Indicative Value	\$25,606
Projected Harvest Return	\$62,170 pre-tax
Forest Location	Gisborne

This Investment Report provides an overview of the Te Karaka Forest Enterprises investment, its structure, the asset, and projected valuations and returns.

Forest Enterprises makes every effort to arrive at reasonable calculations based on our 50 years' forestry knowledge, including our ongoing harvesting experience.

Investors should be aware that the projections and timings provided may vary over time depending on many factors, and the resulting changes could be material.

All assumptions are outlined in this report (refer page 2), or the latest annual Financial Report available from the Companies Office Disclose Register at www.companiesoffice.govt.nz/disclose

Key investment details

Shares available to purchase	One parcel of 133 shares in Te Karaka Forest Investment Only bids for the entire shareholding will be accepted.
Indicative Value	\$25,606 at 8% IRR* * tax paid compounded return per annum over the investment term
Projected Harvest Return	\$62,170 pre-tax for 133 shares
Projected Harvest Timing	2023 — 2033
Projected Future Investor Contributions	Ongoing Calls, \$0 per annum Investor Administration Fee, \$40 per annum
Investment Structure	Registered Managed Investment Scheme (MIS) SCH10980 <ul style="list-style-type: none">• Te Karaka Forest LP (Limited Partnership) 25,000 LP shares• Te Karaka Forest GP Limited (General Partner) 25,000 GP shares
Investment Disclosure	Companies Office Disclose Register www.companiesoffice.govt.nz/disclose <i>Search Schemes</i> by Scheme Te Karaka or Scheme Number (above)
Licensed Manager	Forest Enterprises Limited (FSP37784)
Forest Location	42km north of Gisborne (refer map on page 11)

Information provided in this report

- How to purchase the shares
- What will the investment cost?
- What is the projected return?
- Cashflow projection
- About the investment
- About the forest and location
- More information available

Assumptions in this report

- All values and amounts expressed in this report are based on a holding of 200 shares, unless stated otherwise.
- The Indicative Value and the Projected Harvest Return have been calculated using the assumptions set out in this report.
- Changes to the assumptions can have a material effect on the figures quoted in this report.

Contact us, anytime

Feel free to contact us for more information or if you have any questions about our investments. Copies of relevant investor communications to date relating to this investment are available on request.

Visit our website at forestenterprises.co.nz for further information about investing in forestry with Forest Enterprises, including Frequently Asked Questions.

Sean Roberts

Customer Services Manager, Forest Enterprises

0800 746 346 (free within New Zealand) or +64 6 370 6360

sroberts@forestenterprises.co.nz



How to purchase the shares

The tender process

Forest Enterprises operates a secondary market for the sale and purchase of shares in our forestry investments. This is to enable our existing clients to liquidate their investment and to allow prospective investors to buy into established Forest Enterprises forests. We facilitate a tender process matching willing buyer with willing seller.

To submit an offer, complete and return to us a **Tender Form**. Our contact details are on page 2. Email is the most efficient option.

A Tender Form is available to download from our website at the following link — it includes the Terms and Conditions of your offer.

<https://www.forestenterprises.co.nz/wp-content/uploads/2023/07/Tender-Form-New-LP-Investor-July-2023.pdf>

What you offer is up to you. The total purchase price you offer may be within, above or below the indicative valuation previously noted. Prospective investors usually set the value of their offer based upon a projected rate of return they wish to achieve over the duration of the investment.

Should your offer be accepted, you and the seller will be required to co-sign a **Deed of Assignment and Power of Attorney** to transfer the ownership of the shares.

An Example Deed of Assignment and Power of Attorney is available to read and download from our website at the link below. This Deed outlines the terms of share ownership.

https://www.forestenterprises.co.nz/wp-content/uploads/2022/08/Example-Deed-of-Assignment-and-Power-of-Attorney_2022.pdf

Who can invest?

An eligible Forest Enterprises investor is:

- an individual aged 18 years or over, investing on their own or jointly, or
- a company, a trust or a partnership, and
- may be a New Zealander or an overseas person
- who holds a New Zealand Inland Revenue Number (IRD number) for tax purposes regardless of residency status

Overseas persons can invest

Overseas persons can invest provided no more than 25% of the investment is held by overseas persons. The Overseas Investment Act 2005 defines an overseas person as an individual who is neither a New Zealand citizen nor ordinarily resident in New Zealand. Contact Forest Enterprises for more information if this is relevant to you.

Verifying new customer identity

As a Financial Services Provider, we are required under the New Zealand Anti-Money Laundering and Countering Financing of Terrorism Act 2009 to undertake due diligence on all new customers to prevent the criminal use of funds.

This requires us to:

- gather information about customer identity and residential address, and
- verify a customer's identity, to ensure the customer is who they say they are.



What will the investment cost?

Indicative valuation - \$25,606 for a 133 -share holding

An offer at the indicative value of \$25,606 represents the Net Present Value (NPV) of the post-tax income of \$47,304 (assuming a marginal tax rate of 33%) discounted by 8% per annum over the investment term. This provides the investors with an Internal Rate of Return (IRR) of 8% on the post-tax income.

The indicative valuation is provided as a basis upon which prospective investors may determine the amount they wish to tender as a purchase price. Changes in the assumptions underlying the Cashflow Projection can have a material impact which may increase or decrease the return. Prospective Investors should therefore take account of this when reflecting on what offer to make. Please see page 7 for the significant assumptions that would impact on the investment return.

What is the projected return?

We now show the Taxable Income per unit in the Cashflow Projection which accounts for depreciation on roading as a taxable deduction over the forecast period which the Cashflow per unit excludes.

The cash distributions (pre-tax return) are estimated at \$62,170 and the post-tax income will depend on the buyer's marginal tax rate. Based on the assumptions, a marginal tax of 0% will return an income of \$62,170, a marginal tax rate of 17.5% will return a post-tax income of \$54,286 and at 33% will return a post-tax income of \$47,304.

Tax has a significant impact on the income from this investment. The allowable deductions to date have been claimed by the previous owner of these shares and almost all off the income received from the investment is now taxable. In several years, the taxable income is higher than the distributions as the cash spent building roading is greater than the depreciation of the roading built. In the last year, the distributions are higher than the taxable income as the sale of the land and any Pre 1990 New Zealand Carbon Units are capital transactions and not taxable income.

Distributions are paid gross with investors responsible for declaring and paying tax. Forest Enterprises advises investors of the taxable income to declare each year.

For the purposes of the projection, it is assumed that Te Karaka Forest will be harvested over a further 11 years, as part of a Collective Harvest Joint Venture (see below). Refer to pages 7-9 for details on how the projected return has been calculated.

Projected Pre-Tax and Post-Tax Return for 200 Shares – Recast for Distributions of \$8 and \$7 per share on 24 Feb 2023 and 26 May 2023				
Year	Pre-Tax Income (Distributions) *	Taxable Income to declare	Post-Tax Income at 17.5% Marginal Tax Rate	Post-Tax Income at 33% Marginal Tax Rate
2023	\$1,488	\$1,247	\$1,270	\$1,077
2024	\$5,109	\$4,298	\$4,356	\$3,690
2025	\$3,124	\$2,307	\$2,720	\$2,362
2026	\$3,148	\$2,489	\$2,712	\$2,327
2027	\$2,977	\$2,429	\$2,552	\$2,176
2028	\$2,237	\$1,775	\$1,927	\$1,651
2029	\$2,259	\$1,872	\$1,931	\$1,641
2030	\$1,528	\$1,195	\$1,319	\$1,134
2031	\$5,166	\$5,187	\$4,259	\$3,455
2032	\$5,293	\$5,322	\$4,361	\$3,536
2033	\$29,841	\$16,926	\$26,878	\$24,255
Total Income	\$62,170	\$45,048	\$54,286	\$47,304
NPV at 8% Discount Rate	\$33,969	NA	\$29,532	\$25,606

* if the buyers marginal tax rate was 0% (for example was able to utilise tax losses) then the Pre-Tax Income column would be the same as the post-tax income at a 0% marginal tax rate.



Partners at the end of the Limited Partnership's financial year 31 December 2023 will be allocated the full year's profit or loss for tax purposes. It is important to note that allocation will have no regard to share sale transactions during the year, so any transaction price should reflect the consequences of whether the buyer or seller has paid any Call or received any Distributions during the year of transfer.

We have amended the year end valuation model to reflect the distribution received by the seller of \$1,995 after Balance Date. The buyer will receive any remaining distributions from settlement date. This is estimated to be \$1,488 (\$3,483 - \$1,995). The buyer will have an estimated tax liability for the year of \$419 (33% marginal tax rate) based on an estimated taxable income \$1,247. This gives the buyer a post-tax income of \$1,077 to 31 December 2023 with a NPV (indicative value) of \$25,606 (see table above).

Distributions

Any distributions paid to the seller after the date of this report will be adjusted for in the final settlement price payable by the buyer.

Tax

Tax is complicated and different for Investors depending on their individual circumstances. We recommend all Investors consult with their Tax Advisor.

Selling shares before harvest

Shares can be sold at any time before harvest, however the sale is deemed to be a disposal of the underlying assets (land and trees). The sale of trees is a taxable event, whereas the sale of land is not. Section HG 5 of the Income Tax Act 2007 creates a \$50,000 threshold for the value of the tree crop (in any 12-month period), under which this taxation treatment does not apply.

Harvest Plan – Collective Harvest Joint Venture

Te Karaka Forest Investment is harvesting by way of a joint venture with two neighbouring Forest Enterprises investment forests. This forest group is referred to as the Te Karaka Group. Harvest has already commenced with 52% of harvesting completed. Te Karaka Forest Investment will receive 38% of the net harvest proceeds from the harvest joint venture. Te Karaka Forest Investment also has a 36.5% share in the Limited Partnership entity which holds the land titles of the three participating investments (Land LP).

Copies of any client communications on the joint venture to date, and financial calculations, can be located at www.forestenterprises.co.nz/te-karaka-group/

Forest Activity for the Coming Year

The planned Collective Harvest of 57.8 hectares. It is projected that 42,558 tonnes of logs are to be extracted from this area. Te Karaka Investment's share of budgeted net harvest revenue after roading costs is \$643,390 for 2023. Actual harvest revenue is subject to actual prices and could be more or less than projected.

Impact of cyclones

Cyclone Hale (January 2023) and Cyclone Gabrielle (February 2023) caused extensive damage on the East Coast of the North Island, compounded by an already very wet summer. The Gisborne Tairāwhiti region was particularly hard hit by intense rainfall and flooding. Properties in the Tolaga Bay and Poverty Bay flats were damaged, as well as roads and standing timber.

The Te Karaka Group forests incurred some damage to the treecrop. The total damaged area is to approximately 5.1 hectares of mature treecrop and 6.7 hectares of related younger crop.

The insurance the Group holds covers treecrop loss due to windstorm but not treecrop loss due to slips or flooding. The claim amount does not exceed the excess threshold. Therefore no claim has been submitted. We will extract as much treecrop from the damaged areas that we can to obtain some value for investors.



How has the projected return at harvest been calculated?

General notes to the cashflow projection

The Cashflow Projection¹ (page 9) reflects our current estimate of the cost of the work to be done or services provided, year by year through to harvest, based upon log prices.

The cashflow for the Te Karaka Group Collective Harvest projects stumpage revenue for the harvest of the m3 set out each year.

This prospective financial information will form the basis of future assumptions for financial reporting purposes. Actual revenues, costs and timing may vary from the projections because of changes over time to the work program and prices. The changes may be material.

Harvest assumptions include —

- The log volumes and grades are based on the latest pre-harvest inventory.
- A sales scenario based upon the Port of Gisborne as the point of sale has been used, and therefore assumes demand will exist at harvest time at this destination. Other scenarios will produce different stumpage outcomes.
- For the 12 months to 31 December 2023 log prices are based on Forest Enterprises' 12-month average to reporting date. For the remainder of harvest log prices are based on the 36-month average to reporting date.
- Harvesting and cartage costs are based upon the costs currently being paid by Forest Enterprises for current harvesting.
- The cost of the roading network required at harvest is substantial. At this stage, a provision of \$5.24/ m3 has been provided for.
- The weighted average split between hauler and ground-based logging has been used for all forests.

Other assumptions include —

- It is assumed that the Land will be sold in the final year of harvest, and the latest rating valuation is used.
- Replanting of the areas harvested has been assumed to occur in the winter following harvest and the replanted treecrop sold at the conclusion of harvest (in addition to the Land).
- The cashflow above includes the annual \$40 Investor Administration Fee, charged once per investor per year in addition to Calls regardless of the size of shareholding.

The Land LP Cashflow (page 9) has costs for re-establishing the forest following harvest and other land holding costs. It is assumed investors receive payment for the re-established treecrop, plus sale of the land, in the final year. Each forest's share from the Land LP Cashflow is shown in the "Land LP contributions" line of each forest individual cashflow.

¹ Future distributions and harvest revenue in the cashflow projection should be taken as a guide only. Prospective financial information, by its nature, is inherently uncertain. It involves predictions of future events that cannot be assured as well as risks and uncertainties which are often beyond the control of the Manager. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Various risk factors and the management thereof may influence the future success. Accordingly, actual results may vary from the prospective financial information, and those variations may be significantly more or less favourable. The Manager does not guarantee the achievement of the prospective financial information.



Net stumpage

The return at harvest is expressed as the net stumpage per hectare. The calculated harvest return is a projection based upon a number of critical assumptions which are outlined in the latest annual financial statements. For Te Karaka Group this is currently projected to be \$41,060.

Log Type	Projected Recoverable Volume (m ³ /ha)	Percentage	FE Price at Point of Sale (\$/m ³)	Total Production Costs (\$/m ³)	Net Return Stumpage (\$/m ³)	Contribution to Stumpage (\$/ ha)
Export						
P40	99.1	12%	\$178.46	\$84.49	\$93.98	\$9,314
P30	6.7	1%	\$140.26	\$84.49	\$55.78	\$373
A	486.2	58%	\$127.15	\$84.49	\$42.67	\$20,744
K	84.3	10%	\$112.38	\$84.49	\$27.89	\$2,353
KI	58.5	7%	\$105.08	\$84.49	\$20.60	\$1,205
KIS	23.7	3%	\$93.04	\$84.49	\$8.56	\$203
Domestic						
P35	76.7	9%	\$181.13	\$91.61	\$89.52	\$6,867
S20	0.0	0%	\$0.00	\$0.00	\$0.00	\$0
S30	0.0	0%	\$0.00	\$0.00	\$0.00	\$0
Pulp	0.0	0%	\$0.00	\$0.00	\$0.00	\$0
Totals	835.3	100%				\$41,060
Average Per Tonne			\$134.30	\$85.14	\$49.16	

Annual investment costs

All projected costs relating to the investment are included in the cashflow projection. Some key projected costs not included in the stumpage calculations include rates and insurance, fees, replant/establishment and tending.



Cashflow projection

Taken from the 31 December 2022 Financial Report. Please refer to the assumptions outlined from page 6.

Note: the reference to 'Each Investment Unit' refers to a parcel of 200 shares.

CASHFLOW PROJECTION - Te Karaka Forest Investment												
	No. Units											
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	TOTAL
Financial Year ending 31 December	100.0	57.8	72.1	48.2	46.2	42.3	39.2	35.0	31.6	71.9	76.2	620.5
Total Hectares Planted	57.8	72.1	48.2	46.2	42.3	39.2	35.1	32.0	71.8	76.2	105.2	626.2
Total Hectares Harvested												
EXPENDITURE												
Capital Expenditure												
Te Karaka Group Land LP Contribution	140,800	72,960	90,810	66,890	70,950	149,060	111,360	198,280	183,010	214,460	203,860	1,502,490
Depreciable	101,830	114,830	75,480	74,140	69,170	63,560	59,600	54,010	121,430	124,530	183,890	1,042,470
Road Formation												
Land Preparation												
Deductible Expenditure												
Forestry Expenditure	8,710	4,590	4,010	3,620	3,250	2,900	2,590	2,300	2,050	1,470	850	27,630
Maintenance	11,140	10,210	9,620	9,030	8,450	7,900	7,400	6,920	5,620	4,160	2,090	82,540
Insurance												
Other Expenditure	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	112,200
Management	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	55,000
Invest for Admin Fee	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	36,300
Tussock Fees	3,640	3,640	3,640	3,640	3,640	3,640	3,640	3,640	3,640	3,640	3,640	40,040
Audit Fees	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380	15,180
Investment Update & Valuation	3,420	2,140	2,120	2,110	2,100	2,090	2,080	2,070	2,060	2,040	2,030	24,260
Legal & Other Professional Fees	3,280											3,280
Mapping & Inventory	100	100	100	100	100	100	100	100	100	100	100	1,100
Borrowing Costs & Bank Fees	7,650	9,460	6,950	6,950	6,700	6,320	6,200	5,820	10,210	10,210	14,540	91,010
Industry Subscriptions & Levies	3,640	3,180	2,870	2,570	2,300	2,050	1,830	1,620	1,160	670		21,890
Forestry Management Certification	4,010	4,010	4,010	4,010	4,010	4,010	4,010	4,010	4,010	4,010	4,010	44,110
Filing Fees & Disbursements	100	100	100	100	3,600	100	100	100	100	100	100	4,600
Invest for Mapping Costs												
TOTAL EXPENDITURE	308,200	245,100	219,590	193,080	194,150	261,610	218,790	298,760	353,270	385,270	434,990	3,112,810
RECEIPTS												
Capital Receipts												
Net Current Assets	216,780											216,780
Sale of Shares in Land LP - Land Component												
Sale of Shares in Land LP - Treecrop Component												
Sale of NZUS												
Income Receipts												
Carbon Rights		5,680	4,960	4,480	4,020	3,600	3,210	2,860	2,540	1,820	1,060	34,230
Interest	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
Harvest	745,220	1,198,730	800,710	779,330	748,780	677,470	639,190	582,200	1,320,890	1,377,270	2,008,430	10,878,220
TOTAL RECEIPTS	963,000	1,205,410	806,670	784,810	753,800	682,070	643,400	586,060	1,324,430	1,380,090	6,044,100	15,773,840
NET CASH FLOW	654,800	960,310	587,080	591,730	559,650	420,460	424,610	287,300	971,160	994,820	5,609,110	12,061,030
CASH FLOW FOR EACH INVESTMENT UNIT												
Calendar Year of Call Payment	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	TOTALS
Cash Payable per Unit per Annum	5,238	7,682	4,697	4,734	4,477	3,364	3,397	2,298	7,769	7,959	44,873	96,488
Cash Receivable per Unit per Annum												
TAX ANALYSIS FOR EACH INVESTMENT UNIT												
Tax Year ending December	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	TOTALS
Cashflow per Unit before Tax	5,238	7,682	4,697	4,734	4,477	3,364	3,397	2,298	7,769	7,959	44,873	96,488
Taxation Benefit at 33%	(1,797)	(3,031)	(1,989)	(1,935)	(1,847)	(1,671)	(1,572)	(1,425)	(3,368)	(3,521)	(5,183)	(27,339)
Taxation Payable at 33%												
Cash Payable per Unit after Tax	3,441	4,651	2,708	2,799	2,630	1,693	1,825	873	4,401	4,438	39,690	69,149
Cash Receivable per Unit after Tax												



About the investment

Limited Partnership investment structure

The Te Karaka Forest Investment is a Managed Investment Scheme (MIS) under the Financial Markets Conduct Act 2013 (FMC Act).

The Te Karaka Forest Investment comprises a limited partnership registered under the Limited Partnerships Act 2008 called Te Karaka Forest LP (the Limited Partnership, LP) with one general partner which is a registered company under the Companies Act 1993 called Te Karaka Forest GP Limited (the General Partner, GP).

Investors in the Te Karaka Forest Investment have limited partner shares in the LP plus an equivalent number of company shares in the GP. The Limited Partnership Agreement requires that the 25,000 issued shares in the GP company partnership, are to be held pro rata to the number of limited partners shares held by the limited partners.

Limited Partnership is a Managed Investment Scheme

The Te Karaka Forest LP was registered as a MIS under the Financial Markets Conduct Act 2013 (FMC Act) on 29 November 2016. By consequence of the Act's definition of "managed investment scheme", the Limited Partnership is the registered MIS.

The Deed of Scheme Management is the pre-eminent Governing Document of the MIS, and sets out the rights, obligations and duties of the Manager, the Supervisor, the Custodian and the Limited Partners in relation to the MIS including provisions for compliance with the FMC Act.

Limited liability

As the Te Karaka Forest Investment is a LP, the liability of investors (Limited Partners) is limited and they are only liable to the extent of their capital contributions (funds invested), plus any other obligations expressed in the Limited Partnership Agreement.

Parties involved in providing the investment

Manager	Forest Enterprises Limited	5 Papawai Place, PO Box 128, Masterton
Supervisor	Trustees Executors Limited	70 Boulcott St, PO Box 3222, Wellington
Financial Auditor	Baker Tilley Staples Rodway Audit Limited	95 Customhouse Quay, PO Box 1208, Wellington
Forest Auditor	Forme Consulting Group Limited	173 Main Road, PO Box 56-030, Tawa
Banker	BNZ	193-197 Queen Street, Masterton

About Forest Enterprises

Forest Enterprises is New Zealand's original and most successful forestry investment manager. We are unique in providing both forest management and investment services under one roof. Our business is to create wealth naturally for private investors via New Zealand's thriving pine plantation forestry.

Our 6,500 individual investors are mostly New Zealanders. On their behalf we manage a forest estate of more than 20,000 hectares in the North Island regions of Wairarapa, Hawke's Bay and Gisborne. To date, 19 of our managed forestry investments have achieved FSC® certification for responsible forest management (FSC-C168647). Forest Enterprises is also the property manager of 15,000 hectares of FSC® certified forestry in the North Island owned by an international impact fund manager (FSC-C151650).

Since we started in 1972 in Masterton, New Zealand we have remained a locally owned and operated business. We have grown to 29 employees in total, including the company's six shareholders — we are professionals in the fields of forestry, land management, accounting and finance, administration, commercial law and marketing.

Forest Enterprises is the business Te Karaka of Forest Enterprises Growth Limited (FEG) and its subsidiary Forest Enterprises Limited (FEL). FEL is licensed under the Financial Markets Conduct Act 2013 to manage Managed Investment Schemes (excluding managed funds) which are primarily invested in forestry assets. FEG is contracted by FEL to coordinate and supervise all field activities relating to the land and trees comprising our managed investment estate, at the direction of FEL.

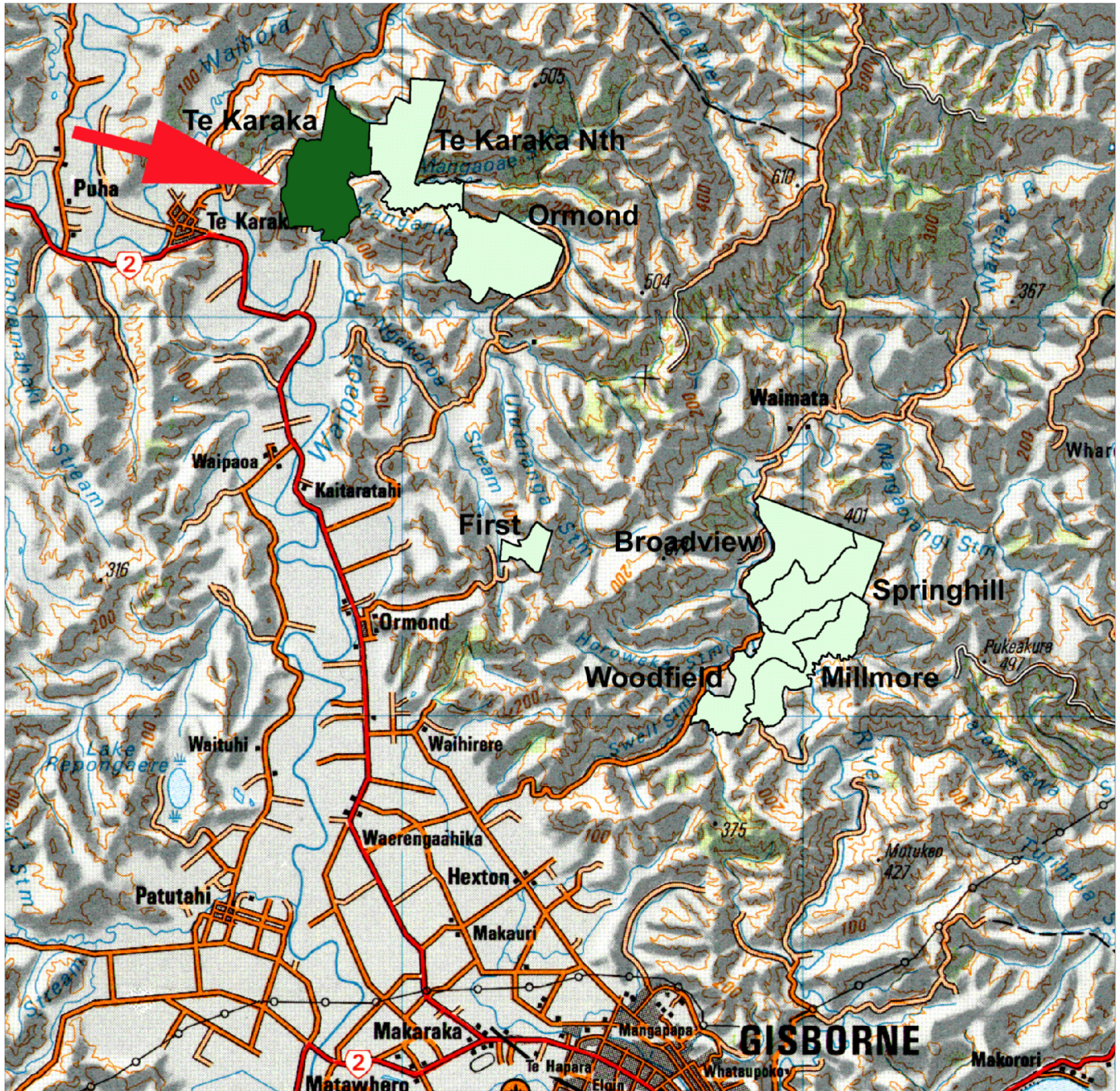


About the forest

Location

Te Karaka Forest, shown in green on the map below, is located 42km north of Gisborne, in a property comprising 485 hectares. It is adjacent to two other Forest Enterprises forest investments, with several others in the vicinity (shown on the map in light green).

Approximately 15% of the timber we harvest from our managed estate in Gisborne is supplied to local sawmills. We export the balance via Gisborne's international log export port, Eastland Port at the mouth of the Turanganui River. Our log export and marketing partner in Gisborne is PFP.



Property description

The terrain of Te Karaka Forest is described as low altitude ranging from 50-60 metres to 300 metres on a ridge in the north, with the majority being below 200 metres. Te Karaka Forest is surrounded by other forests managed by Forest Enterprises, providing economies of scale for all forest operations.

Climate

The climate is typical of the mild East Coast region with an evenly spread annual rainfall of 1,100 mm. The site index, a forestry term for the indication of growth potential, has been assessed as being an average of 30.7 metres in the original prospectus.

Forest development status

Te Karaka Forest comprises a net-planted area of approximately 435 hectares, established in 1994 and 1995 (see table below). The investment comprises a total of 125 units; therefore each unit represents 3.48 hectares of established forest on land owned by Investors.

Pruning and thinning was undertaken to achieve the maximum volume of clearwood (knot-free wood) at harvest, coupled with good tree size and restriction of branch size in the unpruned zone (above 6.5 metres).

ETS Carbon Lease

Te Karaka Forest LP entered into a business arrangement in 2012 with a company called New Zealand Forest Leasing Ltd (NZFL), resulting in the carbon in the Post-1989 areas of the forest being leased to New Zealand Carbon Leasing (No 1) Limited, a subsidiary of NZFL, in return for an annual rental. The annual rental income has helped to offset the annual investment costs.

The participant in the ETS is New Zealand Carbon Leasing (No 1) Limited. It is this company and not Te Karaka Forest LP that has the ETS liability at harvest. A legal opinion to this effect is available on request.

Manager's Report

Each year, an Annual Report and Financial Report (financial statements) are available for investors four months after balance date. The Manager's Report within the Financial Report summarises forest activity for the previous and coming year plus other material management issues.

Insurance

Forest Enterprises coordinates a bulk insurance policy for the benefit of both its group investment and private clients. Under this policy, each insured peril or type of additional cover in the policy has its own aggregate maximum liability. This insurance approach is generally referred to as 'first loss' i.e. the policy covers any losses during the period of insurance as they occur, but up to a maximum of the nominated sums.

The tree crop is insured by Insurance Facilitators Pty Ltd, an Australian based specialist forestry and crop insurance provider on behalf of and as underwriting agent for HDI Global Specialty SE - Australia (HDI). Standard & Poor's has assigned the financial strength rating of A+ (Strong) to HDI.

The main components of the insurance are:

- The excess is 0.75% of the Sum Insured of each Forest Location with Area Damage, subject to a minimum of \$5,000 and maximum \$225,000 in every Single Cause.
- Windthrow Cover, subject to any proportionate share of the \$6 million global policy maximum.
- Fire Cover, subject to any proportionate share of the \$30 million global policy maximum. The insured value, like the indicative value, is derived by discounting back future cash flows to today's dollars (the discount rate for both valuations is aligned at 7.5%).
- Plantation Re-establishment Costs provides cover for \$2,500 per hectare subject to any proportionate share of the \$5.1 million global policy maximum.



Forest Management Certification

Forest Enterprises holds Forest Stewardship Council® Forest Management and Chain of Custody certification for 19 of our managed investments (FSC® C168647), including Te Karaka Forest. The forests are managed in accordance with the FSC standards for responsible forest management:

Environmentally Appropriate: Protecting and maintaining natural communities and high conservation value forests.

Socially Beneficial: Respecting the rights of workers, communities and tangata whenua.

Economically Viable: Building markets, adding best value, and creating equitable access to benefits.

FSC is a global, not-for-profit organisation dedicated to the promotion of responsible forest management worldwide. It is the most rigorous international standard for responsible forestry. FSC certified forests conserve biological diversity, water resources and crucial ecosystems. The FSC standard also upholds worker rights and supports economic prosperity in surrounding communities. The FSC Chain of Custody certification ensures that certified wood products are tracked from forest to final product (and if applicable, that qualified recycled materials are used), adding legitimacy to the FSC claim throughout the supply chain.

FSC is not responsible for and does not endorse any financial claims on returns on investments.

More information about this investment

This Investment Report should be read in conjunction with the investment's latest annual investment reports, Te Karaka the Financial Report.

These and other key disclosure documents are available from the Companies Office Disclose Register at www.companiesoffice.govt.nz/disclose ('Search Schemes' by *Scheme Te Karaka* or *Scheme Number*):

31 December 2022 Financial Report	Includes reports from the Manager, financial auditor and forest auditor, the financial statements, insurance details, and updated budget, investment valuation and projections.
31 December 2022 Annual Report	Prescribed statutory document which includes the fees, details and description of the Scheme.
Deed of Scheme Management (DSM)	The Deed of Scheme Management is the pre-eminent Governing Document of the MIS. It sets out the rights, obligations and duties of the Manager, the Supervisor, the Custodian and the Limited Partners in relation to the MIS including provisions for compliance with the FMC Act including, but not limited to: <ul style="list-style-type: none"> • specific MIS provisions • management of the MIS by the Manager • supervision of the MIS by the Supervisor • custodianship of the MIS's Scheme Property • financial reporting and appointment and duties of the financial auditor of the MIS.
Limited Partnership Agreement	Sets out the matters agreed between the Limited Partnership, the General Partner and the Limited Partners in respect of the operation of the Limited Partnership.
Constitution of the General Partner	Sets out how shareholders, directors and other parties interact with each other.
Statement of Investment Policy and Objectives (SIPO)	Sets out the investment policy and objectives of the registered Scheme.
Te Karaka Group Collective Harvest Joint Venture	Client communications, cashflow projections and proposal documents regarding the Te Karaka Group Collective Harvest www.forestenterprises.co.nz/te-karaka-group/
Recommended Carbon Lease Proposal – FAQs	Prepared by Forest Enterprises for investors, October 2012
The Impact of the Emissions Trading Scheme on your Forestry Investment	Prepared by Forest Enterprises for investors, May 2009





Forest entrance



Hauler tower

