

# Blairlogie Pine Proposal

For investors in Blairlogie Forest Investment and Blairlogie North Forest Investment, Booklet comprises the following documents:

- 1. Proposal Summary**
- 2. Supporting financial and other related information**
- 3. Key financial details**

These documents are also available to read and download from Forest Enterprises' website at: [forestenterprises.co.nz/blairlogie-pine-proposal](https://forestenterprises.co.nz/blairlogie-pine-proposal)



# Blairlogie Pine Proposal

## 1 - Summary

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## Suite of documents

This document is one of three documents which contain all relevant information in respect of the Blairlogie Pine Proposal. This document is the first in the suite and sets out the **Overview of the Blairlogie Pine Proposal**. The other two documents are -

### 2. Blairlogie Pine Proposal Supporting Financial and Other Related Information

This document sets out the details of the contributed value and share allocation of each participating forest and limited partner in the Blairlogie Pine Proposal.

### 3. Blairlogie Pine Proposal Key Financial Details

This document sets out the key financial details on the proposed Blairlogie Pine Investment, the investment which continues for the second rotation.

**Forest Enterprises**

**27 May 2024**

It is proposed that the Blairlogie Group Land LP will be renamed the Blairlogie Pine Investment LP and forms the basis for the Blairlogie Pine Proposal (the *Proposal*). If successful, the Proposal would result in the current limited partners in the Blairlogie Forest Investment and Blairlogie North Forest Investment (the *Participant Forests*) receiving rights to an allocation of shares in the Blairlogie Pine (the *New Investment*). This allocation of shares in the New Investment is the primary consideration for the sale of their land and second rotation trees to the New Investment. References to *Foundation Investors* in the Proposal mean the limited partners of Blairlogie Forest Investment and Blairlogie North Forest Investment.

## Blairlogie Pine Proposal Key Drivers

The key drivers for the Blairlogie Pine Proposal are –

1. To capture the advantages for the second rotation of the forest, enhance the value of the Foundation Investors' interest in the land and second rotation trees, and maximise profitability of the investment for those Investors (and/or their family members) wishing to continue for a second rotation.
2. To sell the carbon credits earned by the growing trees.
3. To preserve the current harvest programme.
4. To provide an exit option in advance of the current harvest programme.

Most importantly the Proposal accommodates the post-harvest investment benefits for all Foundation Investors, whereas the sale of the Blairlogie Group Land denies those Investors (and/or their family members) the opportunity to continue their forestry investment for a second rotation.

## The Proposal Overview

Implementing the Proposal will comprise the following transactions –

### 1. Each Participant Forest will transfer –

- a. Its interest in the Blairlogie Group Land LP (which owns the combined land and trees subject to a new forestry right) directly to the existing investors proportionate to their shareholding in the original investment.

### 2. Each Investor will –

- a. Consequentially receive rights to an allocation of Shares in the New Investment equivalent to their proportionate shareholding in the Blairlogie Group Land LP.
- b. Receive an **Assignment Option** (an option to sell at an agreed price) for their shares in the New Investment.

## Status of Each Participant Forest

Post implementation of the Proposal, each Participant Forest will –

1. Hold a Forestry Right in respect of their remaining first rotation trees.
2. Continue with their scheduled harvest programme until completed.
3. Continue distributions to Investors of surplus cash from harvest.
4. Pay a market rental to the New Investment for the use of the land area still to be harvested (diminishing each year to reflect diminishing area of first rotation trees).
5. At some juncture before the end of harvest, sell any remaining New Zealand Units (NZUs) held which were received as compensation for their Pre-1990 Forest Areas under the Emissions Trading Scheme (ETS).





6. Wind up and distribute the remaining cash balance to Investors.

## **Status of an Investor (Post implementation and at Conclusion of Harvest)**

### **Post implementation of the Proposal, each Foundation Investor will –**

1. Continue to hold their original shares in the existing Participant Forest.
2. Continue to receive distributions arising from the scheduled harvest programme for their first rotation forest.
3. Hold rights to an allocation of shares in the New Investment.
4. Have the Assignment Option (an option to exit the investment at an agreed price on a specific date).

### **At the conclusion of harvest, each Investor –**

1. Will have been paid out in full their share of the harvest proceeds and other assets held by the existing Participant Forest.
2. Will no longer hold shares in the existing Investment once it is wound up.
3. May still hold shares in the New Investment (and/or family interest), depending upon their future forestry investment plans.

## **Investor Continuation and Exit Options**

The winding up of the existing Blairlogie Forest Investment and Blairlogie North Forest Investment concludes an Investor's interest in those forestry investments. The continuation or exit decision is therefore in respect of the shares held in the new Blairlogie Pine Investment (the second rotation forest).

### **Foundation Investors will have the following Continuation Options –**

1. Continue to personally hold some or all their shares in the New Investment.
2. Transfer some or all their shares in the New Investment to family members (or family interest) – these shares can be put directly into the names of family members (or family interest) at the time of allocation.

### **Foundation Investors will have the following Exit Options –**

1. Arrange a personal transfer of some (or all) of their New Investment shares at any time.
2. Exercise the Forest Enterprises Assignment Option in respect of some (or all) of these shares.
3. Plan to sell some or all their New Investment shares via Forest Enterprises' secondary market once the offer has been fully populated and closed. Forest Enterprises' secondary market is not available for the sale of New Investment shares until the company has sold the shares it has purchased under the Assignment Option. Some costs apply to listing shares on the secondary market and no sale is guaranteed.

## **Supporting Financial and Other Related Information**

The financial analysis arising from the implementation of this Proposal, at the New Investment and Investor level, are set out in document **2 – Blairlogie Pine Proposal Supporting Financial and Other Related Information**, and other financial details relating to the proposed Blairlogie Forest Investment are set out in document **3 – Blairlogie Pine Proposal Key Financial Details**.



## Other Details

### Opportunity to purchase additional shares

Foundation Investors will have the opportunity on the Assignment Option Date to purchase additional shares in the New Investment at the Assignment Option Exercise Price.

### When can the proposal be implemented?

All financial calculations have been completed based upon the assumption that the Proposal will be implemented in the second half of 2024.

This implementation date accommodates the timetable for the approval process by each of the Participant Forests, plus preparation and completion of the implementation documentation including a Product Disclosure Statement for the New Investment.

### Cost of implementation of the proposal

The cost of implementation has been fixed by Forest Enterprises at a total of \$120,000 for the Participant Forests. This is less than the standard Real Estate commissions were the forest to be sold at the conclusion of harvest.



# Blairlogie Pine Proposal

## 2 - Supporting Financial and Other Related Information

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### Suite of Documents

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**1. Blairlogie Pine Proposal Summary**

This document summarises the principles and transactions of the Blairlogie Pine Proposal and Investor exit option.

**3. Blairlogie Pine Proposal Key Financial Details**

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

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## Participant Forest Details

Refer to the map entitled *Blairlogie Group Harvest Status*.

*The following details and areas are based on the latest information available to Forest Enterprises.*

### Gross Land Area

The Gross Land Area (title areas) of the Blairlogie Group Land LP are –

Name	Gross Land Area
Blairlogie Group Land LP	888 hectares

### Land Value Summary

The land values were assessed by Morice Limited. Mark Morice has specific expertise in forestry valuation ([www.morice.co.nz](http://www.morice.co.nz)).

The detail of the land valuation was completed in May 2024. The full valuation report is available on the Blairlogie Pine Proposal page. The land valuation was assessed as follows –

Name	Land Value
Blairlogie Group Land LP	\$4,715,000

Refer to the [Morice Limited Market Valuation](#) where details of the composition of these land values are set out. [Note, the land valuer includes roads in the projected Potentially Productive Area. Our projections exclude roads (refer document 3 – *Key Financial Details*).

### Status of the Second Rotation Replant

The status of the net stocked area of second rotation trees already planted (Existing Hectares, as at 31 December 2023), plus the projected areas to be planted as harvesting continues (Projected Hectares), of Blairlogie Group Land LP are –

Blairlogie Group Land LP	Year	Ha	Subtotal	Total
Existing 2nd rotation trees	2019	9.1		
	2020	32.3		
	2021	47.1		
	2022	108.9		
	2023	39.6		
<b>Existing tree total</b>			<b>237.0</b>	
Projected second rotation trees	2024	0		
	2025	112.4		
	2026	148.5		
	2027	143.3		
	2028	129.7		
<b>Projected trees total</b>			<b>533.9</b>	
<b>Total planted hectares</b>				<b>770.9</b>



## Treecrop Values

The Proposal assumes the first rotation investments contributes a fully replanted second rotation treecrop.

As set out under **Status of the Second Rotation Replant** the Blairlogie Group Land LP has areas which have been –

1. Harvested and replanted.
2. Harvested and will be replanted in the winter of 2025 (note that no planting is planned for 2024).
3. Still to be harvested then replanted between 2026-2028.

The Proposal assumes that –

1. The existing replanted second rotation trees (replanted in the years up to and including 2024) 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 to 31 December 2023.
2. The still to be replanted second rotation trees (second rotation to be replanted from 2025 -2028) will be sold for the projected cost of establishment using 2024 rates. The total costs of planting and tending are \$1,392,054 for 2025 – 2028 and includes the replanting costs in 2028 following completion of harvesting in 2027.

The future replant costs have been discounted at 2% per annum to establish the 2024 value of \$1,296,699. This is the value attributed to the New Investment in calculating the buyout price for Investors exiting the second rotation.

Blairlogie Forest Investment and Blairlogie North Forest Investment will be invoiced for this contribution in the applicable year and any under and overs in the remaining second rotation replant will be paid by the New Investment.

Based upon these assumptions, the resulting total Tree Values for the Participant Forests are as follows -

Name	Existing Tree Value including 2024	Projected Tree Value	Total Replanted Tree Value
Blairlogie Pine	\$522,373	\$1,296,699	\$1,819,072

## Total Value and Share Allocation

### Total Value of Land and Trees Contributed by Participant Forests

The table below sets out the land and tree value of Blairlogie Group Land LP, and the resulting percentage contribution to the proposed Blairlogie Pine Investment.

Forest Name	Land Value	Tree Value	Total Value
Blairlogie Pine	\$4,715,000	\$1,819,072	\$6,534,072
Blairlogie Pine value of one share assuming 100,000 shares			\$65.34

### Share Allocation by Participant Forest

There are a total of 100,000 shares in the New Investment. The table below sets out the shares which will be allocated to each Participant Forest (based on the percentage contribution to the Blairlogie Group Land LP) as determined by the collective harvest joint venture vote.

Forest Name	Percentage	Shares Allocated
Blairlogie Forest Investment	51.1%	51,100
Blairlogie North Forest Investment	48.9%	48,900
<b>Totals</b>	<b>100%</b>	<b>100,000</b>





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

Refer to the separate headings for each of Blairlogie Forest Investment and Blairlogie North Forest Investment **Investors – Share Allocation** for details of the allocation of the shares to each Limited Partner in the New Investment 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 Foundation Investor share allocation process reflected in the tables which are unavoidable (and not considered material).

## Share Allocations by Participant Forest

### Blairlogie Forest Investors – Share Allocation

There are 112 limited partners in Blairlogie Forest Investment. Limited Partners in Blairlogie Forest Investment can reference the number of shares they own in their current Investment to see their share allocation in the New Investment and their share of the contributed value to the New Investment.

Number of Blairlogie Forest Investment shares	New Investment share allocation	Share of contributed value
66	135	\$8,815
67	137	\$8,948
100	204	\$13,356
200	409	\$26,711
300	613	\$40,067
400	818	\$53,423
600	1,226	\$80,134
1,200	2,453	\$160,268
<b>25,000</b>	<b>51,100</b>	<b>\$3,338,911</b>

### Blairlogie North Investors – Share Allocation

There are 123 limited partners in Blairlogie North Forest Investment. Limited Partners in Blairlogie North Forest Investment can reference the number of shares they own in their current Investment to see their share allocation in the New Investment and their share of the contributed value to the New Investment.

Number of Blairlogie North Forest Investment shares	New Investment share allocation	Share of contributed value
66	129	\$8,435
67	131	\$8,563
100	196	\$12,781
200	391	\$25,561
400	782	\$51,123
600	1,174	\$76,684
800	1,565	\$102,245
<b>25,000</b>	<b>48,900</b>	<b>\$3,195,161</b>



# Assignment Option Details

## Overview and Exercise Date

*The Assignment Option is an option to sell at an agreed price to Forest Enterprises Growth Limited (FEG) on a certain date with deferred payment and the last instalment guaranteed by 31 December 2027.*

Fundamental to this Proposal is the granting to each Foundation Investor in each Participant Forest an Assignment Option over the shares they are allocated in the New Investment. This Assignment Option guarantees each Investor the opportunity to sell to FEG on the nomination date some or all of the shares they are allocated in the New Investment at a fixed price. Special terms apply to payment for the shares assigned to FEG.

The Assignment Option Exercise Date will be one month after the date when the Product Disclosure Statement (PDS) is available.

Other relevant details –

1. FEG is the purchasing party under the Assignment Option. FEG will in turn offer the shares to new investors under the PDS.
2. The purchase price for shares assigned under the Assignment Option will be paid to exiting investors quarterly in proportion to the volume of shares offered under the PDS that have sold in the prior quarter.

For example, if 20% of shares on offer are sold during the quarter following the Assignment Option Exercise Date, then all exiting investors will receive 20% of the payment for the shares they are selling at the time of the quarterly harvest distribution.

Our last 2<sup>nd</sup> rotation investment was fully sold in 18 months and the one before that within 4 months. But to the extent that any shares remain unsold, FEG will guarantee payment of any remaining balance to exiting investors on 31 December 2027 (the planned harvest completion date).

## Assignment Option Guaranteed Price

Refer to the separate headings **[Forest Name] – Assignment Option Price** for details of the Assignment Option Price guaranteed for each Foundation Investor.

The nature of the Assignment Option is that it –

1. Provides price and timing certainty for each Foundation Investor who decides to sell some or all of their shares in the New Investment; and
2. Transfers all the risk for payment of the shares to Forest Enterprises.

Consequentially, there is an Assignment Option fee of 3.5% (\$2.29) per share paid to FEG which has been calculated in the Assignment Option Price.

If Foundation Investors opt to retain their entitlement to their shares in the New Investment, they can buy additional shares at the Assignment Option 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. Investors can accept the Assignment Option around three years earlier than each of the Participant Forests would normally be sold.



# Assignment Option Exercise Price by Participant Forest

For those investors choosing not to invest in the New Investment, the exit price after the assignment option fee is set out below. This will be paid out quarterly as shares in the New Investment are sold and funds received:

## Blairlogie Forest Investment – Assignment Option Exercise Price

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

Number of Blairlogie Forest Investment shares	New Investment share allocation	Assignment option exercise price
66	135	\$8,512
67	137	\$8,638
100	204	\$12,863
200	409	\$25,789
300	613	\$38,652
400	818	\$51,578
600	1,226	\$77,304
1,200	2,453	\$154,671

## Blairlogie North Forest Investment – Assignment Option Exercise Price

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

Number of Blairlogie North Forest Investment shares	New Investment share allocation	Assignment option exercise price
66	129	\$8,134
67	131	\$8,260
100	196	\$12,359
200	391	\$24,654
400	782	\$49,308
600	1,174	\$74,025
800	1,565	\$98,679



# Blairlogie Pine Proposal

## 3 - Key Financial Details

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### Suite of Documents

This document is one of three documents which contain all relevant information in respect of the Blairlogie Pine Proposal. This document is the third in the suite and sets out the key financial details of the New Investment, the investment which continues for the second rotation. The other two documents are –

#### 1 – Blairlogie Pine Proposal Summary

This document summarises the principles and transactions of the Blairlogie Pine Proposal and Investor exit option.

#### 2 – Blairlogie Pine Proposal Supporting Financial and Other Related Information

This document sets out the details of the contributed value and share allocation of each participating forest and limited partner in the Blairlogie Pine Proposal.

## Objective of this Document

It is proposed that the Blairlogie Group Land LP will be renamed the Blairlogie Pine Investment LP and forms the basis for the Blairlogie Pine Proposal (the *Proposal*). If successful, the Proposal would result in the current limited partners in the Blairlogie Forest Investment and the Blairlogie North Forest Investment (the *Participant Forests*) receiving rights to an allocation of shares in Blairlogie Pine (the *New Investment*). This allocation of shares in the New Investment is the primary consideration for the sale of their land and second rotation trees to the New Investment. References to *Foundation Investors* in the Proposal mean the limited partners of Blairlogie Forest Investment and Blairlogie North Forest Investment.

The details on the Proposal are set out in the document **1 – Blairlogie Pine Proposal Summary**.

Information specific to each partner is set out in the document **2 – Blairlogie Pine Proposal Supporting Financial and Other Related Information**.

The objective of this document is to set out the key financial details of the proposed New Investment from the perspective of the existing Investors, should they (and/or their family interests) choose to retain some (or all) of their allocated shares.

### IMPORTANT

**This report is for information purposes only and is not a product disclosure statement or other offering document under New Zealand law. It does not constitute an invitation or offer of securities or financial products for subscription or purchase. If the Proposal is approved for implementation, each Investor will then receive the statutorily prescribed information.**

## Blairlogie Pine Financial Overview

The Proposal has each Participant Forest contributing their interest in the Blairlogie Group Land LP including the land plus second rotation forest replanting. At the commencement date of the new investment, there are 237 hectares of second rotation forest already replanted, with the balance of 533.9 hectares projected to be replanted in the years 2025-2028.

At a projected 770.9 total planted hectares, the New Investment will be substantial, large enough to result in meaningful economies of scale.

The primary investment strategy for the New Investment is carbon sequestration with approximately 95% of the planted hectares eligible to participate in the Emissions Trading Scheme. Carbon Credits earned by growing trees will be sold to return an annual cashflow to Investors. The investment return should commence in around 10 years (2034) when sufficient Carbon Credits are generated from the replanted tree crop to enable a distribution.

A secondary strategy of harvesting will be pursued if income from harvesting is greater than the cost of repurchasing the Carbon Credits required to surrender on harvest. A Framing Regime will be maintained across the forest to ensure the New Investment remains viable as a production forest, enabling the secondary strategy to be implemented if economic to do so.

The Scheme will conclude in 30 years (2054). A return on investment will be dependent on income generated from selling Carbon Credits, any harvest of trees and sale of the land and any standing trees on the land at that time.

## Forest status

### ETS land classification

Forest	Pre-1990 Forest Land	Post-1989 Forest Land Original areas registered by NZCL and approved by MPI
Blairlogie Group Land LP	82 hectares	732 hectares





Under the Emissions Trading Scheme (ETS), forestry land is generally classified as Pre-1990 forest land or Post-1989 forest land, based on whether it had forest cover on 31 December 1989. The New Investment is primarily Post-1989 forest land which is eligible to be registered in the ETS. Pre-1990 forest land is not eligible to earn further carbon credits and must be replanted after harvest so as not to incur liabilities under the ETS.

Under a carbon lease arrangement, each Participant Forest granted New Zealand Carbon Leasing (No 1) Limited (NZCL) the right to register as a participant in the ETS to earn carbon credits over the Post-1989 forest land in exchange for an annual carbon rental paid to the forest investments.

NZCL must either deregister from the ETS at the end of harvesting of the first rotation or transfer participation to the investment if the investment exercises its right for registration to be transferred to the Participant Forest.

Forest Enterprises has given notice that participation in the ETS is to be transferred. The advantage of transferring participation is that the forest remains eligible to earn carbon credits.

### Land valuation

Forest	Land Value	Projected Net Stocked Area	Price per hectare
Blairlogie Group Land LP	\$4,715,000	770.9 ha	\$6,116

In the valuation from Mark Morice the land value includes roads in Potentially Productive Area whereas our Projected Net Stocked Area of 770.9 hectares excludes roads.

### Stock change accounting method under the ETS

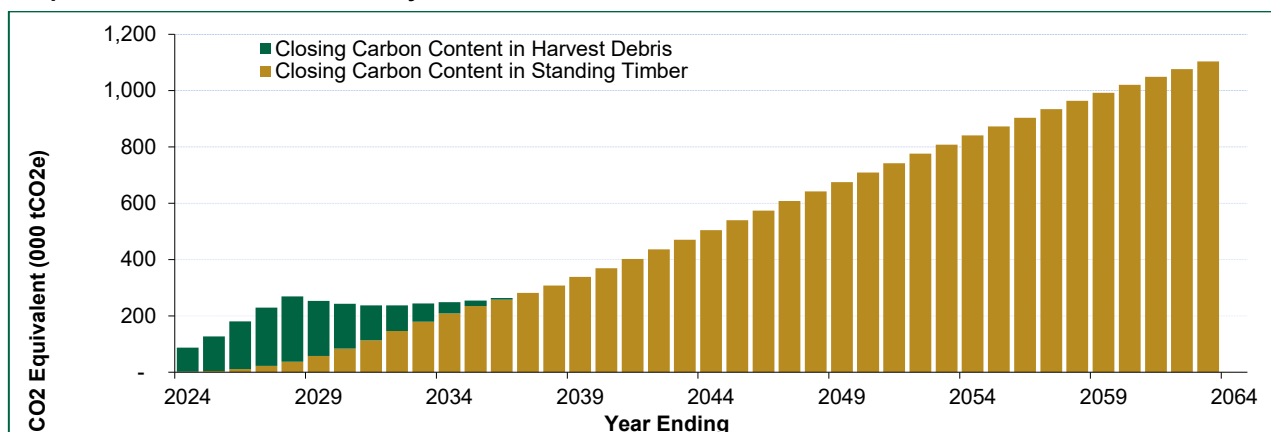
The forests were originally registered in the ETS in time to receive carbon for the Participant (NZCL) from 2008. Given Blairlogie Group Land LP's Post-1989 forest land already has registration under "stock change accounting", this will continue when it is transferred by NZCL back to the New Investment. Due to the age of the trees when they were initially registered in the ETS (2008) there is no safe carbon which does not have to be repaid on harvest.

The first replanted trees in the investment were in 2019, so these carbon accounting areas are only a year away from having positive balances but initially represent a very small area of the forest.

The New Investment will require its own participant-specific FMA tables. New FMA tables will be required to be generated once the formal transfer from NZCL has been concluded.

The graph below has been produced using the FMA tables currently used by NZCL assuming that no harvest occurs before 2054 (the proposed cessation date for the investment). The increase from 2030 to 2054 is over 600,000 NZUs. Selling 600,000 NZUs at \$64 would generate around \$34m. If prices are higher, the revenue is greater.

**Graph 3: The New Investment – 40-year Indicative Carbon Model No Harvest**



The New Investment is estimated to generate an average of over 25,000 NZUs per annum for the period from 2034 to 2054.

### **Could the forest be harvested if carbon credits were sold throughout the investment term?**

Under current rules, as the forest will be a participant under stock change accounting, there is an option to not harvest and to sell carbon credits generated each year and generate income annually.

If a decision was subsequently made to harvest following the sale of carbon units, all carbon units sold would have to be purchased back at prevailing market price at the time of harvest. It would only be feasible to harvest if the price to buy the required carbon units was less than the harvest revenue generated.

In summary, carbon has upside return possibility and that is why the market value of the land reflects a premium compared to Pre-1990 forestry land that could not earn carbon credits.

If carbon is sold and there are no immediate plans to harvest, the Investment documentation will specify that it will come to an end in 2054 by selling the Investment on the open market. It is likely that there will still be carbon credits being generated so the Investment should still have value to be sold.

## **Projected Financial Return**

The projected financial return for a forestry investment is the calculated Internal Rate of Return (IRR) of the investment cashflow. As a crop, the costs of managing and tending the crop are deductible and the income from selling Post-1989 carbon credits (or harvest) is taxable. As the second rotation trees are replanted and tended, for around 8 years the investment will make losses as there are costs but minimal income. Once sufficient carbon credits are generated by the growing forest, losses will cease and from around 2034 there will sufficient surplus over operating costs to begin distributions to investors.

The investment structure (discussed further below) provides for the annual losses to be passed through to the investors in proportion to their shareholding. Each investor can claim these losses as a deduction against their New Zealand taxable income.

If the price of carbon follows an upwards trajectory and government policy continues to allow carbon to be earned on second rotation Post-1989 forests, there is potential for greater returns.

## **New Investment Cashflow**

The Projected Cashflow for the Investment is set out on pages 7 and 8. This cashflow includes all projected Receipts and Payments from 2024. The net cashflow shown for the year ending 31 December 2024 is that arising from the purchase of the land and second rotation trees in exchange for shares in this investment. This is a non-cash payment which is shown for information purposes only. This payment is accounted for in Projected Financial Return figures noted earlier.

As this document is focusing on the key financial details, an explanation is not provided for each cashflow item, only those with a reference number. These items include the key elements from the Proposal which have cashflow consequences.

### **Calls, mortgage repayment and borrowings (Ref 1)**

A key element of the Blairlogie Pine Proposal is that there are minimal Calls. The only payment in 2024 is the non-cash payment relating to the contribution of the land and existing second rotation tree crop. From 2025 to 2028 the participant forests will continue to contribute to the New Investment the projected cost of second rotation establishment using 2024 rates as set out in **2 – Blairlogie Pine Proposal Supporting Financial and Other Related Information**.

Projected calls are shown for 2026 and 2029.

Provided the projected carbon cashflow is realised and costs align with projections, we do not anticipate any need for borrowings. An overdraft facility will be maintained to cover operational costs as needed.



## Management (Ref 2)

The Management Fee is calculated at \$30 per hectare of Potentially Productive Area (\$24,570 per annum). The Management Fee is less in the earlier years as it is calculated on net stocked area, which starts at 237 hectares and increases to the total Potentially Productive Area of 819.9 from 2028 on the cessation of the forestry rights to the participant forests.

In addition, there is a \$60 per annum Investor Administration Fee payable by each investor (regardless of the size of their shareholding).

These fees will be indexed to and adjusted annually by the LCI<sup>1</sup> throughout the course of the investment.

## Supervision fees

Forest Enterprises' supervision fee (calculated at 20% of the cost of the operation) is included in the forestry expenditure figures, plus the Forest Insurance figure.

## Sale of land and improvements (Ref 3)

The value for the land included in the Proposal at inception is assumed to be the value the land is sold for at the conclusion of the investment term in 2054.

## Land rental/Replant receipts (Ref 4)

The Proposal requires each Participant Forest to pay a market rental of \$120 per hectare to the new investment for their use of the land still to be harvested under their respective forestry right. This rental decreases each year until 2028 by which date the last of the first rotation trees will have been harvested.

The land rental also includes the cost of replanting to be contributed from 2025 – 2028 by the Participant Investments.

## Harvest (Ref 5)

No harvest revenue is anticipated in the carbon cashflow. Harvesting will only occur if income from harvesting is greater than the cost of repurchasing the Carbon Credits required to surrender on harvest.

## Net cashflow after tax

As set out under Projected Financial Return, the taxation outcomes are an important element in calculating the investment return.

## Carbon credit sales (Ref 6)

Carbon cashflow has been calculated on the projected generation of carbon credits sold at \$64 per NZU, the clearing price at the last NZ ETS auction. If carbon sales eventuate as projected, calls will only be required in 2026 and 2029 to meet costs of the second rotation tending regime.

Carbon price	Projected carbon cashflow	Real IRR*
Base scenario: \$64	\$34,258,139	7.5%
\$40	\$21,411,337	5.0%
\$80	\$42,822,674	8.8%
\$100	\$53,528,342	10.2%

\* not inflation adjusted

<sup>1</sup> LCI means the Labour Cost Index (Private Sector – All Industries) as published by Statistics New Zealand



## **Tending** (Ref 7)

Silvicultural costs anticipate that a framing regime (no pruning) will be adopted.

## **Investor Distributions**

As set out under Cash Payable per Unit, Investors could expect to receive annual distributions from 2034 through to 2054. Investors will be advised of the taxable income/loss to declare to the Inland Revenue every year.

## **Investment Structure**

The proposed Investment will be structured as a Limited Partnership (LP). This structure provides investors with the protection of limited liability, plus flow through of the annual tax losses (in the early years), and taxable profits as arising from the sale of carbon credits.

Investors in the Investment will have limited partner shares in the LP, plus beneficial ownership of an equal number of corresponding company shares in the General Partner (GP) company which are held in bare trust for the investors by the Manager. The LP Agreement requires that the 100,000 beneficially owned shares in the GP company are held pro rata to the number of LP shares held by the limited partners.

Further details on the Forest Enterprises-developed LP investment structure are available on request but will be similar to the existing Blairlogie and Blairlogie North Forest LPs.



# Draft Cashflow Projection (real return not inflation adjusted)

Financial Year ending December	REF	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Cumulative Hectares		237.0	349.4	497.9	641.2	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9
<b>EXPENDITURE</b>															
<b>Capital Expenditure</b>															
Non Depreciable															
Land and Improvements	3	5,237,373													
Preliminary Expenses		235,000													
Land Preparation			44,972	59,392	57,304	51,870									
<b>Deductible Expenditure</b>															
<b>Forestry Expenditure</b>															
Establishment			231,691	313,127	304,662	276,334	8,242								
Tending	7		1,781		13,706	37,215	50,975	108,765	37,403		106,246	140,314	135,381	122,543	
Maintenance	4	2,371	3,495	4,980	6,413	7,709	7,709	7,709	7,709	7,709	7,709	7,709	7,709	7,709	7,709
Protection		1,185	1,748	2,490	3,206	3,855	3,855	3,855	3,855	3,855	3,855	3,855	3,855	3,855	3,855
Inventory															
Mapping		485	2,393	3,861	2,743	1,945	1,686	2,227	2,149	1,945					
Insurance		3,189	4,644	6,625	8,801	11,083	12,350	13,616	14,883	16,150	17,416	18,683	19,950	21,216	22,483
Rates		2,020	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080
<b>Other Expenditure</b>															
Management	2	1,778	10,490	14,940	19,240	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570
Investor Admin Fee		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Supervisor Fees		1,063	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250
Audit Fees		4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Investment Update & Valuation		1,375	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Borrowing Costs & Bank Fees		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Industry Subscriptions & Levies		12,371	17,302	21,794	26,129	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052
Disbursements		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Investor Meeting Costs		500	500	5,000	500	500	500	500	5,000	500	500	500	500	5,000	500
Contingency		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
<b>TOTAL EXPENDITURE</b>		<b>5,524,209</b>	<b>362,345</b>	<b>475,539</b>	<b>486,032</b>	<b>488,463</b>	<b>183,270</b>	<b>234,624</b>	<b>168,951</b>	<b>128,111</b>	<b>233,679</b>	<b>269,013</b>	<b>265,346</b>	<b>258,275</b>	<b>132,499</b>
<b>RECEIPTS</b>															
<b>Capital Receipts</b>															
Net Current Assets		35,819	33,322	(269,141)	82,915	78,466	(161,381)	135,276	56,037	(8,547)	(93,137)	110,371			
Sale of Land & Improvements	3														
<b>Income Receipts</b>															
<b>Interest</b>															
Land Rental / Replant Receipts	4	16,017	329,024	405,279	391,236	365,419									
Carbon	6			1,526	11,882	34,608	61,584	99,349	112,914	136,658	326,816	505,636	587,902	718,513	850,030
Harvest	5														
<b>TOTAL RECEIPTS</b>		<b>51,836</b>	<b>362,346</b>	<b>137,665</b>	<b>486,033</b>	<b>478,493</b>	<b>(99,797)</b>	<b>234,625</b>	<b>168,951</b>	<b>128,111</b>	<b>233,679</b>	<b>616,007</b>	<b>587,902</b>	<b>718,513</b>	<b>850,030</b>
<b>NET CASHFLOW</b>		<b>(5,472,373)</b>		<b>(337,875)</b>		<b>(9,970)</b>	<b>(283,067)</b>					<b>346,995</b>	<b>322,555</b>	<b>460,238</b>	<b>717,531</b>
<b>CASHFLOW FOR 200 SHARE EXAMPLE</b>															
Calendar Year of Call Payment		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Cash Payable per Unit per Annum	1	(10,945)													
NPV of Tending Payable on Application		(2,593)													
Payable on application		(13,538)		(678)			(586)								
Cash Receivable per Unit per Annum												694	645	920	1,435
<b>TAX ANALYSIS FOR 200 SHARE EXAMPLE</b>															
Tax Year ending December		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Cashflow per Unit before Tax		(13,538)		(678)			(586)					694	645	920	1,435
Taxation Benefit at 33%		24					80		37						
Taxation Payable at 33%										(6)	(61)	(156)	(213)	(304)	(474)
Cash Payable per Unit after Tax		(13,515)		(672)			(506)								
Cash Receivable per Unit after Tax										(6)	(61)	538	432	617	961



2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	TOTAL
770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	770.9	
																	5,237,373
																	235,000
																	213,538
																	1,134,057
																	754,328
7,709	7,709	7,709	7,709	7,709	7,618	7,386	7,238	6,620	7,313	7,709	6,585	6,224	6,277	6,413	7,709	7,709	217,699
3,855	3,855	3,855	3,855	3,855	3,809	3,693	3,619	3,310	3,657	3,855	3,292	3,112	3,138	3,206	3,855	3,855	108,849
				732	2,585	3,770	8,714	3,166		8,994	11,878	11,461	10,374				61,674
				137	485	844	2,118	1,301	1,634	2,417	2,712	4,542	5,806	2,743	1,945	1,686	47,805
23,750	25,016	26,283	27,550	28,816	29,636	29,394	28,609	24,917	25,101	26,678	22,446	17,331	12,754	8,801	11,083	12,350	571,602
8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	8,080	244,420
24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	24,570	709,838
10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	310,000
4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250	128,563
4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	139,500
5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	166,375
1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	31,000
30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	30,052	889,007
5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	155,000
500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	42,500
5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	155,000
<b>133,766</b>	<b>135,032</b>	<b>136,299</b>	<b>142,066</b>	<b>139,702</b>	<b>142,584</b>	<b>143,539</b>	<b>148,750</b>	<b>142,267</b>	<b>136,158</b>	<b>148,106</b>	<b>145,366</b>	<b>141,123</b>	<b>141,301</b>	<b>119,614</b>	<b>123,044</b>	<b>124,052</b>	<b>11,553,127</b>
																	0
																	5,237,373
																	5,237,373
																	1,506,975
1,061,919	1,360,811	1,551,384	1,704,331	1,812,545	1,886,983	1,936,109	1,964,841	1,980,540	1,979,920	1,967,297	1,956,058	1,948,020	1,942,364	1,936,261	1,921,681	1,901,185	34,258,139
<b>1,061,919</b>	<b>1,360,811</b>	<b>1,551,384</b>	<b>1,704,331</b>	<b>1,812,545</b>	<b>1,886,983</b>	<b>1,936,109</b>	<b>1,964,841</b>	<b>1,980,540</b>	<b>1,979,920</b>	<b>1,967,297</b>	<b>1,956,058</b>	<b>1,948,020</b>	<b>1,942,364</b>	<b>1,936,261</b>	<b>1,921,681</b>	<b>7,138,558</b>	<b>40,452,167</b>
<b>928,153</b>	<b>1,225,778</b>	<b>1,415,085</b>	<b>1,562,265</b>	<b>1,672,844</b>	<b>1,744,399</b>	<b>1,792,570</b>	<b>1,816,091</b>	<b>1,838,273</b>	<b>1,843,763</b>	<b>1,819,191</b>	<b>1,810,692</b>	<b>1,806,897</b>	<b>1,801,062</b>	<b>1,816,647</b>	<b>1,798,636</b>	<b>7,014,506</b>	<b>35,261,134</b>
<b>2038</b>	<b>2039</b>	<b>2040</b>	<b>2041</b>	<b>2042</b>	<b>2043</b>	<b>2044</b>	<b>2045</b>	<b>2046</b>	<b>2047</b>	<b>2048</b>	<b>2049</b>	<b>2050</b>	<b>2051</b>	<b>2052</b>	<b>2053</b>	<b>2054</b>	<b>TOTALS</b>
																	(12,207)
																	(14,840)
1,856	2,452	2,830	3,125	3,346	3,489	3,585	3,632	3,677	3,688	3,638	3,621	3,614	3,602	3,633	3,597	14,029	71,108
<b>2038</b>	<b>2039</b>	<b>2040</b>	<b>2041</b>	<b>2042</b>	<b>2043</b>	<b>2044</b>	<b>2045</b>	<b>2046</b>	<b>2047</b>	<b>2048</b>	<b>2049</b>	<b>2050</b>	<b>2051</b>	<b>2052</b>	<b>2053</b>	<b>2054</b>	<b>TOTALS</b>
1,856	2,452	2,830	3,125	3,346	3,489	3,585	3,632	3,677	3,688	3,638	3,621	3,614	3,602	3,633	3,597	14,029	
(613)	(809)	(934)	(1,031)	(1,104)	(1,151)	(1,183)	(1,199)	(1,213)	(1,217)	(1,201)	(1,195)	(1,193)	(1,189)	(1,199)	(1,187)	(1,173)	(19,914)
1,244	1,643	1,896	2,093	2,242	2,337	2,402	2,434	2,463	2,471	2,438	2,426	2,421	2,413	2,434	2,410	12,856	51,194