Panikau Group
Allocation of Share of Collective Harvest

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Managed Investment Schemes in the Panikau Group
(for Collective Harvest by Joint Venture)

The Forest Enterprises' Managed Investment Schemes (MIS) included in this proposed collective harvest joint venture are:

- Baywood Forest Investment

- Pukerewa Forest Investment

Also referred to as the 'Panikau Group'.

Background

The two investments in the Panikau Group will be voting on a proposal to implement a Collective Harvest Joint Venture of their mature forest.

The underlying rationale of the proposal is that each investment is better off receiving a percentage share of the total revenue from the collective harvest of the forests owned by each investment in the joint venture than 100% of the revenue from the standalone harvest of their forest.

The harvest revenue sharing methodology to be used is the *Forest Crop Value,* as set out in *Appendix 1 – Notes on Harvest Share Methodology.* These notes are the relevant sections extracted from the comprehensive report entitled *Collective Harvest by Joint Venture – For Forest Enterprises Managed Investment Schemes* (available on the Panikau Group webpage).

The purpose of this document is to report to Investors in the Panikau Group investment –

1. The calculated harvest shares for each investment; and

2. Identify and discuss the differences in the participant forests impacting on the calculated harvest shares.

Calculated Harvest Share Percentages

The methodology used resulted in Forest Crop Valuation for the two Panikau Group forests per the table below. The table shows how the respective forest crop values translate to the corresponding percentage share of the collective harvest allocated to each investment.

Forest Investment	Net Present Value of Standalone Harvest Cashflow $	Calculation of Collective Harvest Revenue $	Collective Harvest Revenue Allocation %
Baywood Investment	5,277,000	5,277,000 / 17,050,100	30.9%
Panikau Investment	11,773,100	11,773,100 / 17,050,100	69.1%
Total	**17,050,100**		**100.0%**

The output is that the Baywood Forest Investment will receive 30.9% and the Pukerewa Forest Investment 69.1% of the total net revenue from the collective harvest.

Fair allocation of collective harvest revenue

The forecast wood flow and cash flow from the two participating forests meet the harvesting constraints of the current operating environment and comply with the respective requirements of the carbon lease and the average tree age for Pukerewa at harvest is 31.3 years and Baywood is 28.2 years. Plus, all key assumptions underlying tree crop value, including log prices and production cost estimates are on the same basis. All forecasts of total recoverable volume by log grade are based on yield tables derived from the pre-harvest inventory of the forests carried out in 2020.

We have made 3 refinements to the Audited Financial Statements to enable the fair allocation of collective harvest revenue between the participant forests in the Panikau Group:

1   To allow for the different restrictions on harvesting and the impact this has on value Baywood valuation is based on an average tree age at harvest of 28.2 years and Pukerewa 31.3 years. We consider this fair as it reflects the difference in commercial contracts each forest has.

2   The key harvesting assumptions in regard to harvest revenue and costs are set on the same basis to enable a fair allocation.

3   The discount rate of 3.5% has been adopted based on the review of discount rates by Deloitte. We have used a rate at the lower end of the range to rebalance the rate towards the 'time value of money' component from the 'risk premium' component of the rate (see Panikau webpage for Deloitte's review).

Net Stocked Area Comparison

As expressed in the Notes in Appendix 1, the key measure against which the calculated harvest share percentage is compared is the *Net Stocked Area* percentage of each forest. This is because, all other factors being equal, the calculated harvest share percentage for each forest would be the same percentage as the net stocked area percentage. Any differences in the calculated harvest share percentages must therefore be explained and rationalised with reference to actual differences between each participant forest.

The table below compares the calculated Harvest Share percentage with the Net Stocked Area percentage.

Forest Investment	Net Stocked Area ha	Net Stocked Area %	Harvest Share %	Difference
Baywood Investment	237.1	33.5%	30.9%	-2.6%
Pukerewa Investment	470.9	66.5%	69.1%	+2.6%
Total Forest Crop Value	**708.0**	**100.0%**	**100.0%**	

The comparison highlights that the individual forests have differences which result in a harvest share percentage shift relative to net stocked area. This is due mainly to the relative stumpage differences (refer table below). The balance of this report identifies and discusses these forest differences.

IMPORTANT NOTE – The differences in the calculated harvest share percentage compared with the net stocked area percentage are <u>NOT</u> a measure of the investment return for each of the two participating Panikau Group investments. The investment return is a factor of both the income to be received from the harvest share percentage, PLUS the costs incurred by each forest from land purchase to the conclusion of the investment, and each investment has a different cost history.

Forest Differences Identified

The differences between the two Panikau Group forests in *Age Class Mix* and *Projected Stumpage* impact the respective Forest Crop Values and therefore the calculated harvest share percentages for the investments.

1. Age Class Mix Differences

The table below analyses the Panikau Group participating forests' Net Stocked Areas by age class (determined by year of planting) and the resulting totals.

Forest Investment	1996	1997	2000	2001	Total	1995 %	1996 %	2000 %	2001 %
Baywood Investment			181.2	55.9	237.1			76%	24%
Pukerewa Investment	129.2	337.1	4.6		470.9	27%	72%	1%	
Total Forest Crop Value	**129.2**	**337.1**	**185.8**	**55.9**	**708.0**	**18%**	**48%**	**26%**	**8%**

The forests have different age profiles with Pukerewa approximately 3 years older than Baywood. The discount rate adjusts for differences in age class composition.

2. Projected Stumpage Differences

The table below sets out the projected stumpage for each forest. Stumpage refers to the net payment to investors for the tree crop, normally expressed as $/hectare.

Forest Investment	Annual Report Average Age at Harvest	Annual Report Projected Stumpage $	Allocation Model at age: • 31.3 for Pukerewa; • 28.2 for Baywood Projected Stumpage $	Variance $
Baywood Investment	28.2	26,443	26,375	68
Pukerewa Investment	31.3	28,895	29,350	455

Forest Investment	Annual Report Recoverable Volume m3/ha	Allocation Model at age 31.4 for Pukerewa and 28.2 for Baywood Recoverable Volume m3/ha	Variance m3/ha
Baywood Investment	737	737	0
Pukerewa Investment	787	792	5

To enable the fair allocation of collective harvest of the group, the harvest assumptions have been standardised and the same pricing series applied. The year end for Pukerewa is 31 December 2023 and the pricing series applied is 31 March 2024.

The stumpage difference is minimal from those in the latest Annual Financial Report. These stumpage figures are from the projected stumpage summaries set out in *Appendix 2 – Projected Stumpage Summaries.*

a) Price at Point of Sale

Forest Investment	Average Price per m3
Baywood Investment	129.9
Pukerewa Investment	131.2

This reflects the log grades, with a marginally higher log grade for Pukerewa.

b) Logging Costs

Forest Investment	Logging Cost per m3
Baywood Investment	45.3
Pukerewa Investment	45.6

Comparable terrain and logging difficulty.

c) Roading Costs (including processing areas crossings, entranceways and maintenance)

Forest Investment	Roading Cost	Cost per m3
Baywood Investment	2,875,918	16.5
Pukerewa Investment	6,326,235	17.0

This reflects the terrain and the number of landings required to be built to extract logs.

d) Cartage Costs

Forest Investment	Cartage Cost per m3
Baywood Investment	25.0
Pukerewa Investment	24.2

The reflects the internal roading and distance to the Port and local sawmills with Pukerewa closer than Baywood.

Appendix 1 – Notes on Harvest Share Methodology

Calculation of each Investment's Equitable Share of Collective Harvest

Overview of Collective Harvest Share Calculation

The underlying principle behind sharing the total revenue from collective harvest is that each Investment is better off receiving a percentage share of the total revenue from the collective harvest of the forests owned by the multiple MIS in the joint venture than 100% of the revenue from harvest of their forest.

A sharing methodology is required, and the methodology used is to calculate each Investment's forest crop value at the same date using the same assumptions, and to input the calculated figures into the following formula –

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

Worked example of formula –

MIS Name	Forest Crop Value	Calculation of % Share	Calculated % Share of Collective Harvest
Investment 1	$10.5 million	$10.5/$43.0	24.42%
Investment 2	$15.0 Million	$15.0/$43.0	34.88%
Investment 3	$17.5 million	$17.5/$43.0	40.70%
Total Forest Crop Value	**$43.0 million**		**100.00%**

Forest Crop Value

The benefit of using Forest Crop Value is because the methodology is –

- Prescribed by *International Accounting Standard IAS 41*, the accounting standard for valuation of biological assets

- Complies with the *New Zealand Institute of Forestry* valuation standard

The calculation uses a subset of each Investment's projected Cashflow.

Given the application of the calculated value, a valid question is *Does IAS 41 result in a logical value of a forest crop, especially for comparison purposes with other forest crops?* As the name expresses, international accounting standards apply internationally and are arrived at via a consultation process. Sometimes these processes can produce a less than optimal result in specific circumstances.

Calculation, Checking and Reporting Shares to Investors

Forest Enterprises prepares the forestry and other inputs, enters these into each Investment's Cashflow, and calculates the resulting shares for each Investment in the joint venture. The assumptions for the forestry inputs are reviewed by the Forestry Auditor (Forme Consulting Group Limited).

Forest Enterprises prepares a report to Investors in each Investment, setting out the relevant forestry assumptions, the calculated forest crop values, plus resulting calculated shares of the collective harvest revenue. Supporting this report are the review letters received by the Supervisor from the Forestry Auditor.

The key measure against which the calculated harvest shares is reported is comparison with the percentage of net stocked areas of each Participant Investment in the joint venture. This is because, all other factors being equal, the percentage allocation of harvest to each Investment would be the same percentage as the net stocked area. The differences in the calculated percentage shares is therefore explained and rationalised with reference to the actual hard data relating to valid actual differences between each participant forest in the joint venture.

Baywood Stumpage

Volume Harvested	m3	TRV m3/ha	Percentage	Price at PoS ($/m3)	Harvest Costs ($/m3)	Log & Load ($/m3)	Harvest Roading ($/m3)	Harvest Mgt&Mktg ($/m3)	Harvest Contingency & Levy ($/m3)	Cartage Costs ($/m3)	Net Return ($/m3)	Contribution to Stumpage ($/ha)
A	98,237	414	56%	$ 122.7	$ (69.1)	$ (45.3)	$ (16.5)	$ (4.5)	$ (2.9)	$ (24.8)	$ 28.8	$ 11,932
K	18,264	77	10%	$ 106.6	$ (69.1)	$ (45.3)	$ (16.5)	$ (4.5)	$ (2.9)	$ (24.8)	$ 12.7	$ 978
KI	16,544	70	9%	$ 101.4	$ (69.1)	$ (45.3)	$ (16.5)	$ (4.5)	$ (2.9)	$ (24.8)	$ 7.6	$ 527
KIS	6,067	26	3%	$ 89.2	$ (69.1)	$ (45.3)	$ (16.5)	$ (4.5)	$ (2.9)	$ (24.8)	$ (4.6)	$ (118)
P30	1,241	5	1%	$ 141.6	$ (69.1)	$ (45.3)	$ (16.5)	$ (4.5)	$ (2.9)	$ (24.8)	$ 47.8	$ 250
P35	16,429	69	9%	$ 181.1	$ (69.1)	$ (45.3)	$ (16.5)	$ (4.5)	$ (2.9)	$ (27.4)	$ 84.7	$ 5,869
P40	17,954	76	10%	$ 185.5	$ (69.1)	$ (45.3)	$ (16.5)	$ (4.5)	$ (2.9)	$ (24.8)	$ 91.6	$ 6,936
Total	**174,736**	**737**	**100%**	**$ 129.9**	**$ (69.1)**	**$ (45.3)**	**$ (16.5)**	**$ (4.5)**	**$ (2.9)**	**$ (25.0)**	**$ 35.8**	**$ 26,375**

Pukerewa Stumpage

Volume Harvested	m3	TRV m3/ha	Percentage	Price at PoS ($/m3)	Harvest Costs ($/m3)	Log & Load ($/m3)	Harvest Roading ($/m3)	Harvest Mgt&Mktg ($/m3)	Harvest Contingency & Levy ($/m3)	Cartage Costs ($/m3)	Net Return ($/m3)	Contribution to Stumpage ($/ha)
A	214,025	454	57%	$ 122.7	$ (69.9)	$ (45.6)	$ (17.0)	$ (4.5)	$ (2.9)	$ (24.0)	$ 28.7	$ 13,061
K	39,050	83	10%	$ 106.6	$ (69.9)	$ (45.6)	$ (17.0)	$ (4.5)	$ (2.9)	$ (24.0)	$ 12.6	$ 1,048
KI	27,326	58	7%	$ 101.4	$ (69.9)	$ (45.6)	$ (17.0)	$ (4.5)	$ (2.9)	$ (24.0)	$ 7.5	$ 435
KIS	11,584	25	3%	$ 89.2	$ (69.9)	$ (45.6)	$ (17.0)	$ (4.5)	$ (2.9)	$ (24.0)	$ (4.7)	$ (115)
P30	2,939	6	1%	$ 141.6	$ (69.9)	$ (45.6)	$ (17.0)	$ (4.5)	$ (2.9)	$ (24.0)	$ 47.7	$ 298
P35	34,529	73	9%	$ 181.1	$ (69.9)	$ (45.6)	$ (17.0)	$ (4.5)	$ (2.9)	$ (26.7)	$ 84.5	$ 6,194
P40	43,369	92	12%	$ 185.5	$ (69.9)	$ (45.6)	$ (17.0)	$ (4.5)	$ (2.9)	$ (24.0)	$ 91.5	$ 8,430
Total	**372,823**	**792**	**100%**	**$ 131.2**	**$ (69.9)**	**$ (45.6)**	**$ (17.0)**	**$ (4.5)**	**$ (2.9)**	**$ (24.2)**	**$ 37.1**	**$ 29,350**