

Six Hills Forest Partnership

Annual Report & 2010 Budget

31 December 2009

Forest Stand Progress

All six of your forest stands are healthy and with minor exceptions, all forest area is growing well as it enters its 14th year. There was a little bit of wind-throw at Ahuriri following thinning but it is not significant. The thinned pine stands have grown rapidly to fill the open canopies. The Douglas-fir at Tekoa has become so dense it looks like needing to be thinned but that is probably still a couple of years off. However we will check that with the Consultant this year so we can schedule it.

As the enclosed budget for 2010 shows there is not much forest work scheduled although we may need to add some more thinning at Hopefield. We will check that later in the year and if our Consultant advises it needs to be done we may have carbon credit funds to pay for it.

We continue to delay putting in Permanent Sample Plots because as yet they are not needed. So far MAF have come up with a 'look up table' method for the carbon credits but not an actual measurement method. If that changes it will probably be worth measuring your forests to get more credits but we will wait and see.

There is a lot of work required to register and claim carbon credits for all six forest stands and this is underway. We can do most of it as part of our administration and management role we believe, although some legal work and input from Perpetual Trust may be needed too.

Carbon Credits, at last

The Emissions Trading Scheme is now in place and together with the landowners, the Partnership can register and claim carbon credits ('NZUs') from all of its forest area for 2008 and 2009. We must do this before the end of March 2010. The parties' NZUs can then be sold on the open market right away or kept for later sale. We do not know what the price will be but the current assumption is close to \$25, because the government has imposed a cap at that price. It could be less of course.

But before the partnership gets any credits it must have the landowners' agreement, so we have written to them asking for that and suggesting an addition to the Joint Venture Agreement to cover carbon credit issues.

Obviously selling credits can create a liability which the landowner will not want to be left with at harvest, at least not without adequate compensation, such as a greater share of credits. However, it is possible to take some credits and not have to return them at harvest, so long as the forest site continues to be forest land. Currently though, landowners can do what they like with the sites after harvest. So perhaps the parties can agree to replant at harvest if credits are taken and are still relevant then.

We will send you a full report from the Forestry Consultant on all this soon but for now we can say we believe it will be possible to get an agreement with the landowners to allow both parties to gain from the ETS without compromising the long term viability of their forest investment.

Budget & Contribution for 2010

Although it is quite possible we may later next year be sending you a cheque for carbon credits, that is not the position yet and we must now ask for your 2010 contribution.

Accordingly please find enclosed the new budget and a request for payment.

Charles Etherington
Warren Forestry Ltd
Manager



WARREN FORESTRY

Forest Investment Excellence