

Amuri Hills Forest Partnership

Annual Report & 2010 Budget

31 December 2009

Forest Stand Progress

All five of your forest stands are healthy and with minor exceptions, all forest area is growing well as they enter their 15th year. The remaining forest work to do is some thinning of the part pruned and unpruned areas of the Leslie Hills pines and thinning the Douglas-fir at Glens of Tekoa.

In the spring we took a close look at the pines with a consultant and his advice was to wait another year and look again. It is late to be thinning these areas but that is because they are still not yet crowded enough to trigger thinning. This is due to wind. About a quarter of the stand is wind affected to some extent, whereas the rest is relatively sheltered. Unless trees are experiencing excessive competition they need not be thinned. Indeed they are actually providing some mutual shelter.

The two Douglas-fir stands will need to be thinned too, but not this year. Originally this was forecast for age 18 but they are probably ahead of that schedule. So later this year we will take a close look at this.

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 \$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 very 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 as 'the cupboard is bare'.

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

Charles Etherington
Warren Forestry Ltd
Manager



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Forest Investment Excellence