

INDEPENDENT AUDITOR'S REPORT

To the Trustees of the Lake Rotoaira Forest Trust



REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the Lake Rotoaira Forest Trust & Subsidiary LRFT Land Holdings Ltd on pages 36 to 54, which comprise the Statement of Financial Position as at 30 June 2017, and the Statement of Comprehensive Income and the Statement of Movements in Equity, and Statement Of Cashflows for the year then ended, and a summary of significant accounting policies and other explanatory information.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements on pages 36 to 54:

- Present fairly, in all material respects, the financial position of Lake Rotoaira Forest Trust as at 30 June 2017 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

BASIS FOR QUALIFIED OPINION

As stated in the Statement Of Accounting Policies, the financial statements as outlined in note 5 on page 46, the Land and Improvements accounted for as Investment property are valued at the latest Quotable Value Ltd valuations which are based on vacant possession of the land. This is a departure from NZIAS 40 Investment Property and NZ IFRS 13 Fair Value Measurement, which require the fair value of non-financial assets to be based on the highest and best use of those assets. We have been unable to satisfy ourselves regarding the fair value of the Land and Buildings, and therefore are unable to quantify the effect of this departure from generally accepted accounting practice on the financial statements.

We have not sighted all the Certificates of Title for the land and improvements.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Proprietor in accordance with professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the Lake Rotoaira Forest Trust.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Financial Reporting Act 2013, we report that:

We have obtained all the information and explanations that we have required.

In our opinion proper accounting records have been kept by the Lake Rotoaira Forest Trust as far as appears from an examination of those records.

TRUSTEES' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Trustees are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

A full description of our responsibility may be found at: xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page8.aspx

Cairncross & Doyle

Cairncross & Doyle
Chartered Accountants
5th December 2017
Whanganui & Tūrangī

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017



	Note	2017 \$	2016 \$
Total operating income	2	5,374,920	5,372,800
Total operating expenses	3	(2,823,590)	(3,147,859)
Net operating earnings		2,551,330	2,224,941
Increase/(decrease) in fair value investment property	5	6,289,450	2,747,000
		6,289,450	2,747,000
Net operating surplus/(deficit) before taxation		8,840,780	4,971,941
(Increase)/reduction in income tax	13	(915,753)	(440,695)
Net surplus after taxation		7,925,027	4,531,246
Less grants paid			
Marae and Health grants		144,830	190,201
Extraordinary items			
Penalties		-	43
NET SURPLUS/(DEFICIT)		\$7,780,197	\$4,341,002

STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
TRUST EQUITY AT START OF YEAR		53,299,824	50,116,522
Net surplus for the year		7,780,197	4,341,002
Distribution to owners		(750,000)	(1,157,699)
		7,030,197	3,183,303
TRUST EQUITY AT END OF YEAR	7	\$60,330,021	\$53,299,825

STATEMENT OF FINANCIAL POSITION

As at 30 June 2017



	Note	2017 \$	2016 \$
CURRENT ASSETS			
Cash and cash equivalents	10	782,444	1,372,546
Taxation	13	5	1,750
Accounts receivable	11	813,955	622,486
Total current assets		1,596,404	1,996,782
NON-CURRENT ASSETS			
Property, plant and equipment	4	4,608	7,943
Investments			
Investment in The Weighbridge Company Ltd	16	118,690	105,099
Investment in Lake Taupō Forest Management Ltd	16	4,366,168	4,134,260
Investment in Tūwharetoa Property Ltd	15	500,010	300,000
Investments	6	11,789,847	10,197,979
Investment property – forestry	5	49,824,630	43,611,170
Total non-current assets		66,603,953	58,356,451
TOTAL ASSETS		68,200,357	60,353,233
CURRENT LIABILITIES			
Accounts payable	17	230,930	90,661
GST payable		150,913	187,791
Unclaimed distributions	18	2,552,301	2,407,546
Term loan – current portion	14	73,460	50,399
Total current liabilities		3,007,604	2,736,397
NON-CURRENT LIABILITIES			
BNZ Loan Hautū Rangipō Whenua Ltd	14	385,570	757,061
Deferred tax	13	4,477,162	3,559,950
Total non-current liabilities		4,862,732	4,317,011
TOTAL LIABILITIES		7,870,336	7,053,408
NET ASSETS		\$60,330,021	\$53,299,825
Represented by:			
TRUSTEES' FUNDS			
Retained earnings		60,330,021	53,299,825
TOTAL TRUSTEES' FUNDS		\$60,330,021	\$53,299,825

Authorised for and on behalf of the Board of Trustees, and confirmed for issue.

Chairperson
5 December 2017

Trustee
5 December 2017

STATEMENT OF CASH FLOWS

For the year ended 30 June 2017



Account	Note	2017 \$	2016 \$
Cash Flows from Operating Activities			
Receipts from operations		4,299,405	4,695,319
Interest, dividends and other investment receipts		538,201	622,667
Payments to suppliers		(2,603,998)	(3,211,626)
Net GST payable		(36,878)	95,486
Income tax paid		3,204	(2,892)
Total cash flows from operating activities		2,199,934	2,198,954
Cash Flows from Investing Activities			
Receipts from sale of investment and investment property		-	-
Payments to investments and investment property		(1,353,153)	(478,558)
Investments in related entities		(338,378)	(442,105)
Total cash flows from investing and financing activities		(1,691,531)	(920,663)
Cash Flows from Financing Activities			
Distributions to owners		(750,000)	(1,157,699)
Marae and Health grants		(144,830)	(190,201)
Receipts from BNZ loan advance		-	-
Receipts from unclaimed distributions/short-term loans		144,755	263,114
BNZ loan repayments		(348,430)	(294,620)
Cash flows from financing activities		-	-
Total cash flows from financing activities		(1,098,505)	(1,379,406)
Net increase/(decrease) in cash		(590,102)	(101,115)
Cash Balances			
Cash and cash equivalents at beginning of period		1,372,546	1,473,661
Net change in cash for period	10	(590,102)	(101,115)
Cash and cash equivalents at end of period		782,444	1,372,546

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

These financial statements comprise the financial statements of Lake Rotoaira Forest Trust for the year ended 30 June 2017. The Trust is an Ahu Whenua Trust under the Te Ture Whenua Maori Act 1993.

The financial statements of the Trust have been prepared in accordance with generally accepted accounting practices and the requirements of section 276 of Te Ture Whenua Maori Act 1993.

BASIS OF PREPARATION

STATEMENT COMPLIANCE

The financial statements have been prepared in accordance Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to international Financial Reporting Standards Reduced in Disclosure Regime (NZ IFRS –RDR) and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The Trust is a Tier 2 for Profit entity and has elected to report in accordance with Tier 2 for Profit Accounting Standards as issued by the New Zealand External Reporting Board (XRB). The Trust is eligible to report in accordance with Tier 2 for Profit Accounting Standards on the Basis that it does not have public accountability and is not a large for Profit Public Sector Entity.

NZIFRS 1 has been applied.

BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis modified by the revelation of certain assets (as described in the specific accounting policies section).

The accrual basis of accounting has been used unless otherwise stated, and the financial statements have been prepared on a going-concern basis.

PRESENTATION CURRENCY

The information is presented in New Zealand dollars, which is the Trust's functional currency.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Trust and revenue can be reliably measured. Revenue is measured at the fair value of consideration received, excluding GST, rebates and trade discounts.

The following specific recognised criteria must be met before revenue is recognised;

Interest Income

Interest Income is recognised as it accrues, using the effective interest method.

Rental Income

Rental Income arising from lease of land is accounted for on a straight line basis over the lease term.

EXPENSES

Expenses have been classified on their activity function.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of twelve months or less, and bank overdrafts.

TRADE DEBTORS AND OTHER RECEIVABLES

Trade debtors and other receivables are measured at their cost less any impairment losses.

An allowance for impairment is established where there is objective evidence the Trust will not be able to collect all amounts due according to the original terms of receivable.

TRADE CREDITORS AND OTHER PAYABLES

Trade creditors and other payables are stated at cost.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

DEPRECIATION

Depreciation has been charged at rates not exceeding those approved by the Inland Revenue Department. As such, building and the revalued portion of buildings have not been depreciated. This is a departure from NZ IAS 16.

The following depreciation rates have been applied at each class of property, plant and equipment:

Land improvements	3%	SL
Computers	40%	SL
iPads	67%	SL

The residual value and useful life of property, plant and equipment is reassessed annually.

INTANGIBLE ASSETS

Intangible assets comprise New Zealand Emission Units (NZUs). NZUs are issued into the NZU Registry by the government under the Emission Trading Scheme (ETS). Compensatory NZUs are received from the Ministry of Agriculture and Forestry (MAF) at no cost and recorded at a nominal value basis determined by the Lake Rotoaira Forest Trust Trustees. NZUs have an indefinite useful life and can be traded within New Zealand.

INVESTMENT PROPERTY

Investment property is primarily held either to earn rental income or capital appreciation or both. Investment property is measured at cost on initial recognition and subsequently at fair value with any changes therein recognised in the reported profit and loss. Fair value is determined by reference to the latest valuation of Landmass Technology.

When the use of investment property changes, such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the carrying amounts of tangible and non-tangible assets are reviewed to determine whether there is any indication of impairment. If such indication exists for an asset, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity.

Financial instruments are comprised of trade debtors and other receivables, cash and cash equivalents, other financial assets, trade creditors and other payables and other financial liabilities.

INITIAL RECOGNITION AND MEASUREMENT

Financial assets and financial liabilities are recognised initially at fair value plus transaction cost attributable to the acquisition, except for those carried at fair value through profit or loss, which are measured at fair value.

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Trust becomes party to the contractual provisions of the financial instruments.

DERECOGNITION OF FINANCIAL ASSETS

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or if the Trust transfers the financial assets to another party without retaining control or substantially all risks and rewards.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

The subsequent measurement of financial assets depends on their classification, which is primarily determined by the purpose for which the financial assets were acquired. Management determined the classification of the financial assets at initial recognition and re-evaluates this designation at each reporting date.

All financial assets held by the Trust in the years reported have been designated into one classification, 'loans and receivables', being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment.

Discounting is omitted where the effect of discounting is immaterial.

SUBSEQUENT MEASUREMENT OF FINANCIAL LIABILITIES

Trade payables and other borrowings are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

FOREIGN CURRENCIES

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of receipt or payment for the transaction. At balance date, foreign monetary assets and liabilities are translated at the closing rate, and variations arising from these transactions are included in the Statement of Comprehensive Income.

GOODS AND SERVICES TAX

These financial statements have been prepared on a GST exclusive basis with the exception of accounts receivable and accounts payable, which are shown inclusive of GST.

TAXATION

The income tax expense charged to the Statement of Comprehensive Income includes both the current year's provision and the income tax effect of timing differences calculated using the liability method. Tax effective accounting is applied on a comprehensive basis to all timing differences.

CURRENT INCOME TAXES

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

The Trust entered the Māori Authority regime on 1 April 2004. The current legislated tax rate of 17.5 per cent now applies.

DEFERRED TAX

Deferred tax is the amount of income tax payable or recoverable in future years in respect of temporary differences and unused tax losses (if any). Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in consumption of taxable surpluses.

Deferred tax is not found or provided on the initial recognition of goodwill or on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects the tax or accounting profit.

Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available in future years, against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Trust expects to recover the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only when the Trust has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of income tax in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

LEASES

Leases where the Trust assumes substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are classified as operating leases.

Upon initial recognition, finance leased assets are measured at an amount equal to the lower of its fair value and the present value of minimum leased payments at inception of the lease. A matching liability is recognised for minimum lease payment obligations excluding the effective interest expense. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

IMPAIRMENT

The carrying amounts of the Trust's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the reported profit or loss.

IMPAIRMENT OF DEBT INSTRUMENTS AND RECEIVABLES

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument-by-instrument basis. All individual instruments that are considered significant are subject to this approach.

Debt instruments that are not individually significant and debt instruments for which, based on the individual assessment, it was determined that no objective evidence of impairment existed are collectively assessed for impairment in groups with similar risk characteristics.

For trade receivables that are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on number of days overdue and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

CHANGES TO ACCOUNTING POLICIES AND DISCLOSURES

The Trust has continued to adopt NZ IFRS with certain reduced disclosure requirements. There are no changes to the financial statements policies in 2017.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Accounting estimates and assumptions

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Where material, information on significant judgements, estimates and assumptions is provided in the relevant accounting policy or provided in the relevant note disclosure.

Estimates and underlying assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Estimates are subject to ongoing review and actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

ANNUAL DISTRIBUTIONS

Annual distributions that are unable to be paid to owners are invested in a low-risk, defensive portfolio consisting of cash, fixed interest, equities and property. Income generated by the portfolio is retained in the portfolio. The capital is only drawn on in order to pay out distributions to owners as they are located.

INVESTMENTS

Investments are stated at market value as at balance date (excluding disposal costs).

Brokerage costs on disposal are in the range of 0.1 per cent to 0.7 per cent. Realised and unrealised gains and losses arising from investments are included in the Statement of Comprehensive Income.

FORESTRY INTERESTS

The Trust's forestry interests, both its share of the Crown Lease crop and its wholly owned second rotation forest crop, have been valued by Indufor Asia Pacific Ltd. The basis of the valuation is the same as last year, being the excess of the net present value of future cash inflows from the sales of logs from the planted forest crop, over the future costs of silviculture, harvesting, transportation and marketing, with the forest valued as a single estate, combining the future management plans of the Crown Lease forest crop and the Trust-owned forest crop. As per the Crown lease, the valuation assumes the Crown received 71.5 per cent and the Trust 28.5 per cent of the stumpage derived from the remaining first rotation crop, while the Trust will receive 100 per cent of the stumpage from the second rotation crop once harvesting of that crop commences in 2026.

The value was determined by applying a discount rate of 8.0 per cent to real pre-tax cash flows determined as described above. The discount rate is the same rate that applied last year. A lower discount rate produces a higher value, and the valuers explained that the rate applied more closely

reflects the rate that the market uses in valuing forest assets today.

The value of the Trust's combined forest assets at 30 June 2017 was \$37.72 million, a \$6.09 million increase from the 2016 value. This is the combined result of a \$0.42 million increase in value of the Trust's share of the Crown Lease forest, and a \$5.67 million increase in the value of the Trust's wholly owned forest crop. Despite an approximately 10 per cent reduction in area of the remaining Crown Lease forest (through harvesting), the value of this forest, and the Trust's share of that value, has in fact increased. This reflects the very strong markets for logs we have experienced over the last few years, which in turn have increased the expected returns from the remaining forest.

The increase in the value of the wholly owned stands is mainly because they are now one year older, many having received pruning investment, and approximately 270 more hectares have been planted. This revaluation is shown in Note 5 of the financial statements.

The forest is predominantly *Pinus radiata* stands, which have been divided into crop types with each describing a combination of the inherent productivity of the site, the type of management regime applied and the terrain of the stand. Harvesting is modelled for the full estate in a manner that enables a sustainable annual cut into the future. To achieve this, it allows individual stands to be harvested at different ages, within an upper and lower age limit.

The timing convention used in the cash flows is one that assumes costs, revenues and yields occur at the beginning of the year.

Log prices assumed in the valuation have been independently assessed by Indufor Asia Pacific Ltd and are based on the long-term averages for prices actually achieved from harvesting in the forest to date and their knowledge of the wider domestic and international trends. The value is seen to be sensitive to the log prices and discount rate assumed for the calculation. The selected prices and discount rate are considered to be appropriate for determining the current market value of the forest.

The valuation represents the market value of the trees only and does not include the value of the land on which the trees are growing.

THE WEIGHBRIDGE COMPANY LIMITED

The Weighbridge Company Limited is an associate company in which the Trust holds a 25 per cent shareholding and in whose commercial and financial policy decisions it participates. This associate company has been reflected in the financial statements on an equity accounting basis, which shows the Trust's share of retained surpluses in the Statement of Comprehensive Income and its share of post-acquisition increases or decreases in net assets in the Statement of Financial Position. The financial statements of The Weighbridge Company Limited are audited as part of the Lake Taupō Forest Trust group for the year ended 30 June 2017.

LAKE TAUPŌ FOREST MANAGEMENT LIMITED

Lake Taupō Forest Management Limited is an associate company in which the Trust holds a 30 per cent shareholding and in whose commercial and financial policy decisions it participates. This associate company has been reflected in the financial statements on an equity accounting basis, which shows the Trust's share of retained surpluses in the Statement of Comprehensive Income and its share of post-acquisition increases or decreases in net assets in the Statement of Financial Position. The financial statements of Lake Taupō Forest Management Limited have been audited for the year ended 30 June 2017.

CONSOLIDATED FINANCIAL STATEMENTS

Basis of consolidation: purchase method — LRFT Land Holdings Limited

The consolidated financial statements of the parent and its subsidiary are accounted for using the purchase method. All significant inter-entity transactions are eliminated on consolidation. In the Trust's financial statements, the investment in the subsidiary LRFT Land Holdings Ltd is recognised at cost. NZ IFRS 10 requires the consolidation of Lake Rotoaira Forest Trust and LRFT Land Holdings Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



2. Operating Income	2017 \$	2016 \$
Stumpage	4,197,381	4,338,704
Investment income	883,898	583,039
Share of surplus The Weighbridge Company Ltd	13,591	9,139
Share of surplus Lake Taupō Forest Management Ltd	100,212	257,409
Rangipō North 3C and 5C income	148	202
Lake easement income	36,939	36,000
Access income	17,218	17,998
Other income	125,533	130,309
Total operating income	5,374,920	5,372,800

3. Operating Expenses	2017 \$	2016 \$
General Expenses		
Bank fees	305	507
Interest expense – loan and other	31,576	46,683
Insurance	5,617	467
Subscriptions and licences	1,592	2,046
Telephone and fax	639	936
Computer/general meeting expenses	194	18
Realised loss on investments	1,724	116,934
	41,647	167,591
Management and Administration		
Serviced office/administration	249,996	301,992
Accident Compensation levy	215	-
Travel meals and accommodation	-	-
Trust Manager salary	769	42,197
Trust Manager vehicle expenses	-	3,012
Staff allowances	15,339	-
	266,319	347,201
Owner Communication		
AGM and SGM expenses	9,677	16,100
Postage/stationery	1,266	3,558
Annual report	29,733	33,291
Website hosting	660	810
	41,336	53,759

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



3. Operating Expenses (cont.)

	2017 \$	2016 \$
Trustee Honoraria and Meetings		
Trustee election expenses	-	21,167
Trustee fees	126,966	105,470
Trustee travel and accommodation	19,933	24,617
Trustee development	9,732	9,923
Koha	1,233	3,229
Trust meeting expenses	3,607	4,218
Other meeting and hui expenses	7,499	7,068
	168,970	175,692
Professional Fees		
Audit fees	19,650	19,650
Legal fees	8,973	12,460
Other consultants	71,594	39,037
Investment management	85,819	84,522
	186,036	155,669
Forestry Expenses		
Forest investment	1,175,772	1,458,000
Forest maintenance	82,328	89,584
Harvest direct costs	647	-
Management fees forest maintenance/harvesting	8,428	10,220
Management fees forest investment	106,357	113,528
Management fees service and administration protection	164,856	139,056
Shared costs	89,606	59,286
Forest certification	5,085	-
Rates	36,077	37,229
Forestry consultants	107,523	105,966
Depreciation on land improvements/other	79,325	76,814
	1,856,003	2,089,683
Projects		
External liaison	-	661
Water issues/Genesis negotiations	596	1,206
Project wages	152,720	47,596
2016 organisational review	9,331	33,764
Tongariro Crossing Project	1,061	-
Trout farming investigation	8,548	-
RFT alternative opportunities	1,012	-
2016 Forestry Education Programme	90,000	75,000
	263,268	158,227
Other Expenses		
RN3C and RN5C fees	12	37
	12	37
Total Operating Expenses	2,823,590	3,147,859

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



4. Property, Plant and Equipment	2017 \$	2016 \$
Computer Equipment and Website		
B/fwd cost	8,767	2,170
Purchases – computer	-	6,597
Accumulated depreciation	(4,159)	(824)
Total property, plant and equipment	4,608	7,943

5. Investment Property – Forestry	2017 \$	2016 \$
Land and Improvements		
B/fwd cost	12,802,000	12,802,000
	12,802,000	12,802,000
Accumulated depreciation	(963,820)	(887,830)
Fair value revaluation	266,000	67,000
	12,104,180	11,981,170
Forest Crop		
Owned forest crop	19,929,850	14,360,000
Share of joint venture forest crop	17,790,600	17,270,000
	37,720,450	31,630,000
Forest fair value revaluation for the year	6,090,450	2,680,000
	49,824,630	43,611,170
Total investment property – forestry	49,824,630	43,611,170
Total fair value revaluation	6,289,450	2,747,000

6. Investments	2017 \$	2016 \$
The investment portfolio has been managed by Taupō Moana Group Limited. The types of investment held by the fund managers at year end are as follows:		
Lake Rotoaira Forest Trust investments at market values		
Cash	1,204,414	448,780
Fixed interest	6,183,327	5,426,408
Australasian equities	1,470,425	1,455,961
Property portfolio	790,490	895,428
International equities	2,133,203	1,963,548
Total Lake Rotoaira Forest Trust investments	11,781,859	10,190,125
Rangipō North 3C investments	5,383	5,293
Rangipō North 5C investments	2,605	2,561
Total investments at market value	11,789,847	10,197,979

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



7. Trust Equity

	2017 \$	2016 \$
Retained earnings opening balance	53,299,824	50,116,522
Net surplus after tax	7,780,197	4,341,002
Distribution to owners	(750,000)	(1,157,699)
Trust equity closing balance	60,330,021	53,299,825

8. Audit

These financial statements have been subject to audit, please refer to Auditor's Report.

9. Contingent Liabilities

At balance date there are no known contingent liabilities (2016:\$0). Lake Rotoaira Forest Trust has not granted any securities in respect of liabilities payable by any other party whatsoever.

10. Cash and Cash Equivalents

	2017 \$	2016 \$
Bank of New Zealand - Current Account	120,363	105,727
Bank of New Zealand - Call 25 Account	566,839	1,194,802
National Australia Bank Ltd	26,360	27,816
Bank of New Zealand - LRFT Land Holdings Limited	69,365	44,207
Bank of New Zealand - credit card	(483)	(6)
	782,444	1,372,546

The BNZ Credit Card has a \$2,000 limit available as 30 June 2017. An interest rate of 18.95 per cent is recorded on the outstanding balance at year end.

The National Australian Bank funds are recorded in Australian Dollars (AUD) and converted to New Zealand Dollars (NZD) as at 30 June 2017. There is no overdraft facility recorded as being available.

The Bank of New Zealand holds a perfected security interest in all present and acquired property of Lake Rotoaira Forest Trust.

11. Trade Debtors and Other Receivables

	2017 \$	2016 \$
Trade debtors	808,639	613,415
Prepayments	5,316	5,133
Accrue interest	-	-
Accrued income	-	3,938
Lake easement income held on behalf	-	-
	813,955	622,486

As at 30 June 2017 and 2016, all overdue receivables have been assessed for impairment and appropriate allowance made. All receivables are subject to credit risk exposure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



12. Capital Commitments

At balance date, there are no known capital commitments (2016:\$0).

13. Taxation Reconciliation

	2017 \$	2016 \$
Lake Rotoaira Forest Trust		
IRD No: 28-362-846		
Operating profit	8,653,610	4,260,772
Non-assessable income	(215,017)	(357,359)
Non-deductible differences	(339,544)	275,977
Net change in forest valuation	(6,090,450)	(2,680,000)
Capital adjustment forestry royalties	(2,098,691)	(2,169,352)
Taxable income/(loss)	(90,092)	(669,962)
Net losses brought forward	(3,043,035)	(2,272,847)
Taxable income – loss to carry forward	(3,133,127)	(2,942,809)
Imputation credits converted to loss	(99,298)	(100,226)
Loss to carry forward	(3,232,425)	(3,043,035)
Tax Calculation		
RWT credits	5	85
Outstanding from prior years	-	1,665
Total tax to be refunded	5	1,750
(a) Components of Income Tax Expense		
Current year tax expense	-	-
Deferred tax movements	915,753	440,695
Temporary difference	-	-
Income tax profit and loss	915,753	440,695
(b) Reconciliation of Effective Tax Rate		
Profit/(loss) before income tax	(90,092)	(669,962)
Income tax using Māori Authority tax rate @ 17.5% (2016: 17.5%)	-	-
Expected Income Tax Expense	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



13. Taxation Reconciliation (cont.)

2017
\$

2016
\$

(c) Income tax payable/(receivable)

Opening Balance	(1,750)	(2,215)
Current year tax expense	0	-
Tax refunded	562	880
Tax transferred	1,188	1,365
RWT paid	(5)	(1,750)
Closing balance	(5)	(1,750)

(d) Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities disclosed in the statement of financial position are a combination of deferred tax on unused tax losses and deferred tax on temporary differences.

Opening Balance	3,559,950	3,120,429
Temporary difference movements	917,212	439,521
Closing liability balance	4,477,162	3,559,950
Closing deferred liability	4,477,162	3,559,950

The Trust offsets assets and liabilities if and only if it has a legal enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets deferred tax liabilities relate to income taxes levied by the same tax authority.

Reconciliation of Temporary Differences

Deferred tax arising from temporary differences can be summarised as follows:

Revaluation of investment property to fair value	4,477,162	3,559,950
Total deferred tax on temporary differences	4,477,162	3,559,950

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



14. TERM LIABILITIES

	2017 \$	2016 \$
BNZ LOAN HAUTŪ RANGIPŌ WHENUA LTD		
* Loan drawdown 16 June 2015 \$1,100,000		
* Term: 5 years to 16 June 2020		
* Interest rate 5.04 per cent per year as at 30 June 2017		
* Customised average rate loan.		
* General Security Agreement number 008829436		
Loan drawn down	1,100,000	1,100,000
Less principal paid	(640,970)	(294,620)
Interest accrued	-	2,080
Transfer to current portion	(73,460)	(50,399)
Total term liabilities	385,570	757,061
Transferred to current portion	73,460	50,399

15. LRFT LAND HOLDINGS LTD – SUBSIDIARY

On 17 July, 2013 Trustees resolved:

That the Lake Rotoaira Forest Trust forms a subsidiary company, to be called 'LRFT Land Holdings Ltd', for the purpose of owning any freehold land acquired by the Lake Rotoaira Forest Trust.

There are 100 shares on issue. Shares have been initially valued at \$5 each.

In July 2013, the Trustees resolved that LRFT Land Holdings Limited purchase the four titles of land that comprise the G11 quarry for a price of \$90,000. That LRFT agree to lend, interest free, \$90,000 to LRFT Land Holdings Ltd. This loan is repayable on demand. In February 2014, Trustees approved an additional \$48,846 to the purchase price. In November 2013, the Trustees resolved to advance \$300,000 to LRFT Land Holdings Limited to facilitate an investment in Tūwharetoa Settlement Trust Education properties. This advance was made interest free and is repayable on demand.

In August 2014, the Trustees resolved that LRFT Land Holdings Limited purchase surplus Crown enclaves through the Tūwharetoa Settlement process. These were purchased for \$140,000. Lake Rotoaira Forest Trust agreed to advance interest free \$140,000 to LRFT Land Holdings Ltd to facilitate this investment.

In October 2016, the Trustees resolved to advance a \$200,010 to LRFT Land Holdings Limited as a result of a capital call for funds to facilitate a further investment in Tūwharetoa Settlement Trust Education properties. This advance was made interest free and is repayable on demand.

The financial statements of LRFT Land Holdings Limited have been consolidated into these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



16. INVESTMENT IN ASSOCIATE

	2017 \$	2016 \$
The Weighbridge Company Limited Shareholding 25%		
Results of Associate		
Share of operating surpluses before tax	30,033	21,571
Taxation	(16,442)	(12,432)
Share of operating surplus	13,591	9,139
Investment in Associate		
The Weighbridge Company Limited – 25%		
Shares at cost	108,375	108,375
Share of equity	138,586	95,960
Share of operating surplus after tax	13,591	9,139
Dividends	(33,487)	-
Closing balance	118,690	105,099

The principal activity of The Weighbridge Company Limited is to operate a weighbridge facility.

The financial statements are subject to audit as a subsidiary of Lake Taupō Forest Trust.

Lake Taupō Forest Management Ltd Shareholding 30%

Results of Associate

Share of operating surplus (deficit)	100,212	257,409
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Investment in Associate

Lake Taupō Forest Management Ltd – 30%

Shares at cost	15,000	15,000
Share of equity	239,320	(18,089)
Share of operating surplus (deficit) before tax	100,212	257,409
	339,532	239,320
Advances – Opepe and marketing projects	4,026,636	3,894,940
Closing balance	4,366,168	4,134,260

Lake Taupō Forest Management Limited was incorporated on 22 March, 2001. There are 100 shares on issue. All shares rank equally. At 30 June 2011, Lake Rotoaira Forest Trust bought 30 per cent shareholding in Lake Taupō Forest Management Limited for consideration of \$15,000. The principal activity of Lake Taupō Forest Management Limited is forestry consultancy, management and advice.

The Trustees also approved an advance of \$300,000 to Lake Taupō Forest Management Limited for the initiation of a marketing project for logs to China. This occurred in August 2011.

On 22 March 2013, Lake Rotoaira Forest Trust Trustees agreed that Lake Taupō Forest Management Limited can finalise the forestry right agreement with Opepe Farm Trust, committing Lake Rotoaira Forest Trust to a 30 per cent share of investment costs. At 30 June 2017, the total advanced is \$339,028, 30 per cent share of the Opepe forestry right investment costs.

In 2015, Lake Rotoaira Forest Trust agreed that Lake Taupō Forest Management Ltd would facilitate the purchase of an interest in the Hautū Rangipō Whenua Limited. The value of this investment is \$3,008,100 at 30 June 2017.

The financial statements for Lake Taupō Forest Management Limited are subject to audit as a subsidiary of Lake Taupō Forest Trust.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



17. Trade Creditors and Other Payables

	2017 \$	2016 \$
Trade creditors	209,104	82,681
Accrued expenses	3,727	4,895
Personnel liabilities	13,942	
Easement funds held on behalf	4,156	3,085
	230,929	90,661

18. Unclaimed Dividends

	2017 \$	2016 \$
Balance unclaimed	2,552,301	2,407,546

Section 259 of Te Ture Whenua Maori Act provides that profits be applied in payment of dividends.

The Trust has resolved to apply surplus funds to the distribution of grants, as follows:

Current Year Distribution	\$750,000
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19. Financial Instruments

Carrying the value of financial instruments

The carrying amount of all material financial position assets and liabilities are considered to be equivalent to fair value.

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

Classification of financial instruments

All financial assets held by the Trust classified as 'loans and receivables' are carried at cost less accumulated impairments losses.

All financial liabilities held by the Trust are carried at amortised cost using the effective interest rate method.

All derivative financial assets or liabilities held are measured at fair value at each reporting date.

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



2017	Loans and receivables	Financial liabilities at amortised cost	Total
Financial Assets			
Cash and cash equivalents	782,444	-	782,444
Trade debtors and other receivables excluding GST	813,960	-	813,960
	1,596,404	-	1,596,404
Financial Liabilities			
Trade creditor and other payables excluding GST	-	230,930	230,930
Other financial liabilities	-	3,011,331	3,011,331
	-	3,242,261	3,242,261

2016

Financial Assets			
Cash and cash equivalents	1,372,546	-	1,372,546
Trade debtors and other receivables excluding GST	624,236	-	624,326
	1,996,782	-	1,996,782
Financial Liabilities			
Trade creditor and other payables excluding GST	-	90,661	90,661
Other financial liabilities	-	3,215,006	3,215,006
	-	3,305,667	3,305,667

Risk Management

The Trustees have overall responsibility for the establishment and oversight of the Trust's risk management framework. As such, the Trustees oversee risk management policies and procedures, and review the adequacy of the risk management framework in relation to risks faced by the Trust.

20. Related Parties

During the year, Lake Rotoaira Forest Trust received operational, forest management and administration and ownership services on a contractual basis from Lake Taupō Forest Trust and Lake Taupō Forest Management Limited.

Related accounts payable includes:

LTFT \$17,382 (2016: \$30,421)
LTFM Ltd \$19,948 (2016: \$13,521)

Related Accounts Receivable

LRFT Land Holdings Ltd Nil (2016: NIL)

BIDDLE, HEEMI

Lake Taupō Forest Trust - Deputy Chairperson
Opepe Farm Trust - Trustee
Ngāti Tūwharetoa Genesis Committee - Iwi Appointee

HARRIS, JUDY

Lake Taupō Forest Trust - Trustee

Tūwharetoa Property Ltd - Director
Lake Taupō Charitable Trust - Trustee
The Weighbridge Company Ltd - Director

O'CONNOR RICHARD

LRFT Land Holdings Ltd - Director

PITIROI MICHAEL

Lake Taupō Forest Trust - Trustee
Taupō Moana Group Ltd - Director

SEVERNE, CHARLOTTE

Lake Rotoaira Trust - Chairperson
Opepe Farm Trust - Deputy Chairperson

SMITH, TYRONNE (BUBS)

Hautū Rangipō Whenua Ltd - Director

TONGA Jody

Lake Rotoaira Trust - Trustee

TUPARA JOHN

Lake Taupō Forest Trust - Trustee

WALTERS, TOM

Lake Rotoaira Trust - Trustee

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017



21. Emissions Trading Scheme

The Trust has registered its 9,182 hectares of pre-1990 forest land and has now received its full allocation of compensatory credits for this land. The Trust has received around 582,000 NZUs for these forest lands. Compensation units received are recognised on a nominal value basis.

The Trust has not finalised its plans on what it will do with these credits and is still investigating opportunities in this regard with the objective of maximising the value of these credits to the Trust (and owners). Ultimately it expects to sell most, if not all, of them over a period of time. The value of these credits depends on their market price at the time of sale. These values have gradually increased over the last year, and at 30 June 2017, they were trading for around NZ\$18.00/NZU – a price that has continued through to the time of writing (late September 2017). At this price, our NZUs would have a value of around \$10.5 million. As no consideration has been paid or received for the NZUs, the value of the NZUs are recognised at nil at 30 June 2017.

The ETS requires that if pre-1990 forest land is not replanted after harvest, the owner must pay a deforestation tax equal to the value of the carbon removed from the land. This tax depends on the volume of carbon removed from the land at harvest and on the value of that carbon at the time. The volume of carbon in a (say) 10-year-old stand will typically average around 160 tonnes/ha, while for a 30-year-old stand it will average 800 tonnes/ha. At the September 2017 carbon credit price of around \$18.00/NZU (i.e., \$18.00/tonne of carbon) the deforestation liability, should for any reason the Trust not replant any cleared land, therefore equates to around \$2,900/ha for 10-year-old trees and \$14,400/ha for 30-year-old trees.

22. Events Occurring after Balance Date

There have been no known events after balance date that materially affect these Financial Statements (2016-\$Nil).

23. New Standard Issued but Not Yet Effective

A number of new standards and interpretations have been issued but are not yet effective for the current year end. The reported results and financial position of the Trust is not expected to change on adoption of these pronouncements as they do not result in any changes to the Trust's existing accounting policies. Adoption may, however, result in changes to information currently disclosed in the financial statements.

The Trust does not intend to adopt any of the new pronouncements before their effective dates.