Rural Equities Limited

Independent Expert Determination pursuant to Rule 57(3) of the Takeovers Code

2 April 2025

STATEMENT OF INDEPENDENCE

Calibre Partners confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Calibre Partners has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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1. Introduction

1.1 Background

Rural Equities Limited (**REL**) is a rural property investor which owns and manages rural property for long term capital growth and income.

On 26 November 2024, an unincorporated joint venture comprising H&G Limited (**H&G**), David Cushing, and James Richard Wright as trustees of the KD Cushing Family Trust, Makowai Farm Limited, Fairway Finance Limited, RGH Holdings Limited, and Emily Margaret Anne Finlay (**UJV Parties**), made an offer to acquire all the fully paid ordinary shares in REL (**REL Shares**) at $6.00 per share (**Original Offer**).

On 5 December 2024, H&G gave notice of its intention to make a full takeover offer for the REL Shares not already held by H&G (**the Offer**). The notified price was $6.40 per share. Later, on 18 December 2024, H&G made the Offer with an updated price of $6.65 per share (**Offer Price**).

On 20 December 2024, Northington Partners published an independent adviser's report (**IAR**), pursuant to Rule 21 of the Takeovers Code (**Code**), assessing the merits of the Offer. In its IAR, Northington Partners assessed a value range for REL of between $6.35 and $6.50 per share.

On 29 January 2025, following the acquisition of certain REL Shares under the Offer, H&G gave notice that:

- it had become the dominant owner of REL for the purposes of the Code; and
- it was exercising its compulsory acquisition rights under Part 7 of the Code to acquire the outstanding REL Shares, specifying an acquisition price of $6.65 per REL Share, being the Offer Price.

H&G received written objections to the $6.65 acquisition price from shareholders who together hold 10% or more of the outstanding REL Shares.

H&G referred the matter, under rule 57(3) of the Code, for expert determination of the amount of the consideration to be provided for the outstanding REL Shares. The Takeovers Panel sought parties to undertake the role of independent expert. The Takeovers Panel instructed H&G to appoint Calibre Partners as an independent expert. Calibre Partners was appointed on 26 February 2025.

1.2 Expert determination

Rule 57(3) of the Code provides that the amount of the consideration must be a cash sum equal to the "fair and reasonable value" of the REL Shares.

Rule 57(4) of the Code requires the "fair and reasonable value" of the REL Shares being compulsorily acquired to be calculated by:

- first assessing the value of all the equity securities in the class of equity securities of which the equity security forms part; and
- then allocating that value pro rata among all the securities of that class.

Rule 58(4) of the Code provides that the independent expert must make its determination of the fair and reasonable value of REL Shares within 20 working days after being appointed.

On 26 March 2025, the Takeovers Panel approved an exemption from this rule to allow Calibre Partners to make this determination within 25 working days after being appointed, so as to provide more time to incorporate up-to-date third-party valuation information into this determination.

We have not repeated the full detail of REL that would ordinarily be found in an IAR. Instead, we refer readers of this determination to Northington Partners' IAR, and focus our analysis on the matters that result in us arriving at a different assessment to Northington Partners.

1.3 Difference with Northington Partners valuation

The overarching valuation approach taken by Northington Partners and Calibre Partners is broadly similar. We both base our assessment on the net assets of REL. Our valuations rely on the component parts of REL being valued individually and then summed together to determine the overall value of the company.

There are two key areas of consideration which result in a valuation difference between Calibre Partners and Northington Partners:

- **Treatment of corporate overheads:** We adopt a fundamentally different approach to corporate overheads. Northington Partners makes a deduction for capitalised corporate overheads, whereas we consider that:
  - The fair market value of the underlying assets owned by REL will include a level of costs associated with ownership and management of the assets, and
  - There may be incremental costs that REL will incur in the future, but to the extent it incurs such costs, those costs will be at the discretion of REL, and we would expect those costs would be incurred with the expectation of incremental future benefits, above that which is otherwise captured in our valuation.
- **Valuation date:** We adopt a Valuation Date of 29 January 2025, whereas Northington Partners' valuation was at around 6 December 2024. During this period, the value of REL's investment in real estate and shares increased, and it also earned profits.

1.4 Our opinion on a fair and reasonable price

We assess a fair and reasonable value of $203,893,000 for the class value of REL equity as at 29 January 2025. On a pro rata basis, amongst 28,404,784 shares on issue, this represents a fair and reasonable value of $7.1781 per REL Share. We certify a cash sum at this level is fair and reasonable.

1.5 Other

The sources of information we have had access to and relied upon are set out in Appendix 1.

This determination should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our qualifications, general disclaimer and indemnity, independence, as well as restrictions on the use of this determination.

References to **$**, **NZD**, or **dollars** are to New Zealand Dollars, unless specified otherwise.

Tables, figures, and amounts in this determination may not add due to rounding.

2. Valuation Approach

2.1 Standard of value

The 'standard of value' takes account of the fundamental assumptions on which the value will be based, for example the relationship and motivation of the parties and the nature of the hypothetical transaction.

Rule 57(4) of the Code requires the "fair and reasonable value" of the REL Shares to be calculated by assessing the value of all the equity securities in the relevant class of equity securities. REL only has one class of shares, so we have assessed the value of all the shares in REL (**Class Value**).

To determine the Class Value, on a 'fair and reasonable' basis we adopt a standard of value consistent with 'fair market value', being the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, both acting at arm's length.

2.2 Valuation methodology

A key factor in determining the appropriate valuation method or approach is the actual practice commonly adopted by purchasers of the type of business. In particular, it is useful to consider what a purchaser would ascribe value. For example:

- A profitable business with stable earnings would usually be valued based on a multiple of its earnings. The purchaser in this circumstance sees value in the business's stable earnings, which can be benchmarked against other companies' earnings and transaction prices.
- A business with lumpy but forecastable cashflows would usually be valued using a discounted cash flow analysis, particularly when near-term earnings are not representative of longer-term expectations. The purchaser in this circumstance sees value as not simply the current level of earnings, but also the future expectations.
- A loss-making business with poor prospects is likely to be valued based on an orderly realisation of assets, or a book value multiples approach. The purchaser in this circumstance sees value in the underlying assets of the business (rather than its earnings), although given its losses and poor prospects, it would be unlikely to pay the full value of its net assets unless the company's assets were easily liquidated or could otherwise be liquidated at a premium.

In the circumstances of REL, we consider it appropriate to assess the Class Value of REL using an 'adjusted balance sheet' approach. In this approach, the balance sheet of the company is used as the starting point, and adjustments are made to the value of the company's assets and liabilities, to reflect their fair market value.

An adjusted balance sheet approach is equivalent to the 'summation method', in which the value the component parts of the company are valued individually using appropriate valuation approaches and methods, and these parts are then summed to determine the value of the company. This approach is commonly applied to investment companies (including those which hold rural properties) because their value is primarily a factor of the values of their holdings.[1]

Our adoption of an 'adjusted balance sheet approach' is also equivalent to the approach Northington Partners adopted in the IAR. The key difference between us is simply presentation. Northington Partners shows the adjustments in the value within a chart and refers to the output as an 'Adjusted NAV', whereas we have shown the adjustments within a table that shows the balance sheet and adjustments to particular line items.

[1] International Valuation Standards, IVS 105 Valuation Approaches and Methods, paragraphs 70.8 and 70.9.

2.3 Valuation date

We have assessed value as at 29 January 2025 (**Valuation Date**), being the date that H&G gave notice that it was exercising its compulsory acquisition rights under Part 7 of the Code to acquire the outstanding REL Shares that it did not already hold.

Given financial accounts are typically more robust at month end, rather than intra-month, we have taken account of REL's financial position as at 31 January 2025 as being representative of what its financial position would have been on the Valuation Date.

2.4 Real estate valuations

Northington Partners relied on real estate and farm valuations prepared by Property Advisory Limited (**Property Advisory**), including:

- Full valuations with a valuation date of 30 June 2024, and
- Updated 'desktop' valuations with a valuation date of 30 November 2024.

Property Advisory has since updated its 'desktop' valuations, with a 29 January 2025 valuation date.

The updated valuations being 'desktop' means Property Advisory did not visit the relevant sites when completing the update. However, Property Advisory had visited the sites mid-2024, for the purpose of the 30 June 2024 valuations. We consider it reasonable to rely on 'desktop' valuations in these circumstances.

Given the significance of the real estate portfolio and the nature of this engagement, we sought to engage an alternate independent property valuer. However, the responses we received from our enquiries meant that this would not be feasible within the available timeframe.

2.5 Going concern and wind-up assessments

Northington Partners assessed the value of REL on both a 'going concern' and 'wind-up' basis. It ultimately assessed a value range that took account of both approaches.

We have valued REL on a going concern basis, as we consider that reflects the 'fair market value' for REL.

A wind-up assessment can still be relevant in a 'fair market value' context, in circumstances where a knowledgeable, willing but not anxious buyer, in an open market transaction, would go on to wind-up the company. In those circumstances, the buyer would take account of the costs of winding-up the company when assessing value. However, that would usually only apply in a fair market value context in circumstances where the company is not a going concern or is worth more in parts than as a going concern.[2] We consider REL is a going concern and is worth more as a going concern than on a wind-up basis, so have not given weight to what it might be worth in a wind-up scenario.

H&G has advised to us its intention is to operate REL as a going concern, which is consistent with our approach of valuing REL as a going concern.

[2] International Valuation Standards, IVS 200 Businesses and Business Interests, paragraph 70.1.

2.6 Corporate overheads

When undertaking its 'going concern' valuation, Northington Partners states an allowance is needed for the ongoing overhead costs of managing REL and its property portfolio, as this management cost is not reflected in net asset value.

Northington Partners assessed ongoing costs at $1,481,000 per annum, to operate REL as a private entity. This estimate was predominantly associated with a management team, director fees, valuation fees, rent, and audit fees. Based on this being a pre-tax annual cost into perpetuity, growing at 2% per annum, Northington Partners reduces the value of REL by between $14,200,000 and $16,400,000.

In effect, Northington Partners reduced the value of REL by around 7.8%, below the value of REL's component parts, to allow for corporate overhead costs to manage the portfolio.[3]

We consider a deduction for corporate overheads is often appropriate, but not for the purpose of assessing the 'fair market value' of the whole of REL, in circumstances where

- the valuation method is based on the net assets of REL,
- the component parts of REL are mainly real estate and other investments, which are themselves assessed at fair market value, and
- there is no allowance for the incremental benefits that would be expected from incurring those costs.

The fair market value of REL's real estate and other investments have been valued at what buyers would pay to acquire each part. There may be costs associated with owning those parts, but to the extent that is the case, we consider the costs would be reflected in the fair market value of the parts.

REL may incur costs above what some other owners might incur, relative to the scale of its investments. However, where that is the situation, we would expect those costs would be incurred with the expectation of incremental future benefits, above that which is otherwise captured in our valuation.

Put another way, we consider that REL forming a portfolio of real estate and other investments does not diminish the value of the whole below the value of the component parts, simply because there are costs associated with owning the various parts.

Ultimately, we disagree with Northington Partners' view that the value of the real estate and other investments does not capture the costs of owning that real estate and other investments.[4]

[3] Northington Partners assessed a net asset value of $6.91 per share as at 6 December 2024, and reduced this by 7.8% ($0.54 per share) at the midpoint to reflect the costs of managing REL as a private going concern entity.

[4] Northington Partners says at page 23 of the IAR that "An allowance is needed for the ongoing overhead costs of managing [REL] and its Property Portfolio (which is not reflected in NAV)". This implies the value it assesses based on an Adjusted NAV, which includes fair market value assessments of real estate and other investments, does not capture the costs of ownership.

3. REL balance sheet

We show REL's balance sheet at 30 June 2024 and 31 January 2025 in Table 1. Northington Partners relied on the 30 June 2024 balance sheet for its valuation, and adjusted for items between 30 June 2024 and its valuation date of 6 December 2024. In contrast, we have used the 31 January 2025 balance sheet as a proxy for REL's position as at our valuation date of 29 January 2025.

Table 1: REL balance sheet ($ 000, except where stated otherwise)

	30 Jun 2024	31 Jan 2025
Assets:		
Cash and cash equivalents (including short term investments)	11,537	11,864
Accounts receivable	2,706	1,644
Margin call account	222	237
Livestock	2,535	2,379
Feed on hand	706	706
Equity investments:	31,415	34,307
Real estate assets	140,900	141,685
Plant and equipment	483	545
Right of use assets	581	581
Forests	1,447	1,651
Total assets	**192,532**	**195,599**
Liabilities:		
Accounts payable and accrued expenses	(1,080)	(1,344)
Provision for tax	(713)	(953)
Lease liabilities	(572)	(572)
Deferred tax liability	(2,005)	(2,005)
Provisions for property transactions	–	(2,362)
Total liabilities	**(4,370)**	**(7,236)**
Net assets	**188,162**	**188,363**
Shares on issue (total)	*28,404,784*	*28,404,784*
Net assets per share (value per share)	*$6.6243*	*$6.6314*

The book value of REL's net assets was $188,363,000 as at 31 January 2025. This effectively represents our starting point for our adjusted balance sheet valuation.

For the purpose of interpreting the balance sheet:

- The margin call account is referred to as 'held for trading instruments' within REL's annual report.
- The provisions for property transactions relates to the sold properties. This represents an obligation to pay transaction fees and the partial early receipt of consideration (being deposits).

4. Adjusted balance sheet valuation

4.1 Valuation summary

We estimate the value of REL shares at $7.1781 per share, based on an adjusted balance sheet valuation approach. The various adjustments are described in greater detail below.

Table 2: REL valuation ($ 000, except where stated otherwise)

	Section	Book value 31 Jan 2025	Adjustment	Valuation 29 Jan 2025
Assets:				
Cash and cash equivalents	4.2	11,864	–	11,864
Accounts receivable		1,644	–	1,644
Futures margin call account	4.2	237	–	237
Mark-to-market	4.2	–	467	467
Livestock	4.3	2,379	379	2,758
Feed on hand	4.4	706	(254)	452
Equity investments:	4.5	34,307	7,696	42,003
Real estate assets	4.6	141,685	4,511	146,196
Plant and equipment	4.7	545	52	597
Right of use assets	4.8	581	(581)	–
Forests	4.9	1,651	1,394	3,045
Total assets		195,599	13,663	209,263
Liabilities:				
Accounts payable and accrued expenses		(1,344)	–	(1,344)
Provision for tax		(953)	–	(953)
Lease liabilities	4.8	(572)	572	–
Deferred tax liability	4.10	(2,005)	1,845	(160)
Provisions for property transactions	4.11	(2,362)	(550)	(2,912)
Total liabilities		(7,236)	1,866	(5,370)
Net assets		188,363	15,530	203,893
Shares on issue (total)		*28,404,784*		*28,404,784*
Net assets per share (value per share)		*$6.6314*		*$7.1781*

The adjustments are set out in greater detail below. Where no adjustment has been made, we have formed the opinion that the balance sheet value is a fair and reasonable proxy for the fair market value of the particular item.

4.2 Held for trading instruments

Futures margin call account

REL holds funds with Jarden Securities, as a margin against its forward position on milk price derivatives. We make no adjustment to this amount, as it actually reflects funds belonging to REL on the balance sheet dates. We show this item separately to make clear it does not reflect a mark-to-market position.

Mark-to-market

REL does not perform a monthly mark-to-market in respect of the unrealised gains or losses on the milk price futures that it holds.

As at 31 January 2025, the mark-to-market position for REL if its forward contracts were closed out would be a loss of $548,000.

REL's management accounts to 31 January 2025 include $6,281,000 proceeds from the sale of milk solids, net of sharemilkers share of proceeds. This is based on an advance rate of $8.50 per kilogramme of milk solids (**kgMS**). In contrast, the actual Fonterra forecast at the Valuation Date was between $9.50 and $10.50 per kgMS, and the mark to market price for the 2024-25 season was $10.12 per kgMS. Based on this, we consider an uplift to revenue of $1,197,000 is appropriate, to reflect a milk price of $10.12 per kgMS, we reflect this in the valuation within the mark-to-market position, as it reflects the other side of mark-to-market losses on the forward contracts.

The net of the above two adjustments is to reflect an increase to REL's position, assuming a mark-to-market on its milk sold to date and derivatives, of $649,000. We reduce this amount to $467,000 to reflect the post-tax value.

4.3 Livestock

REL's balance sheet includes $2,379,000 for livestock on the Middle Hills and Waikoha properties.

REL updates its balance sheet value for livestock, on a monthly basis, for changes in stock numbers using a rolling weighted average value per livestock class (based on opening values and transactions throughout the financial year). However, REL does not capture the unrealised changes in livestock values caused by animal growth (increased live body weight) or current market schedules, until the end of its financial year.

For the purpose of our valuation of REL, we have increased the value of livestock by $379,000, to take account of the increase in live body weight up to 29 January 2025. This assessment is measured post-tax.

4.4 Feed on hand

REL's balance sheet includes $706,000 for feed on hand, which is the same balance as was recorded as at 30 June 2024. The reason for the balance being unchanged is REL only undertakes a stock take of feed annually, for its full year financial statements.

REL's feed stocks as at the end of each financial year have tended to be reasonably static. However, REL management advises stock levels intra-year tend to vary as:

- Around half of the feed on hand is grain, as at 30 June each year. This is then largely used up by the end of January of the following year, and not replenished until around February and March each year.
- The remaining half of the feed on hand is largely grass and silage, which is used between June and January, but is also replenished over the same period.

Given the usage of grain, REL management has estimated the actual feed levels as at 29 June 2025 would have been around $353,000. We adjust the value of feed stocks down by $353,000 to reflect the lower stock on hand as at the Valuation Date.

Because actual feed stocks are lower than recorded in the balance sheet, the operating expenses of REL are actually higher over the same period, than what is recorded in the monthly financial statements. As a result, the tax position is more favourable than otherwise recorded in REL's financial statements. We have therefore applied a further $99,000 adjustment to feed on hand, to reflect the reduced tax obligation.[5]

On a net basis, we have reduced the value of feed on hand by $254,000.

4.5 Equity investments

REL's equity investments comprise shareholdings in Fonterra Co-Operative Group Limited (**Fonterra**), Contact Energy Limited (**Contact Energy**), Sanford Limited (**Sanford**), Precinct Properties New Zealand Limited (**Precinct Properties**), and Ballance Agri-Nutrients Limited (**Ballance**).

For the purpose of the valuation, we have increased the value of REL's equity investments by $7,696,000, from a book value of $34,307,000 to a valuation assessment of $42,003,000, as set out in Table 3.

Table 3: Equity investments adjustment ($ 000)

	Book value 31 Jan 2025	Adjustment	Valuation 29 Jan 2025
Shares held:			
Fonterra[6]	4,112,000	–	4,112,000
Contact Energy	1,325,000	–	1,325,000
Sanford	2,077,212	–	2,077,212
Precinct Properties	800,000	–	800,000
Ballance	51,750	–	51,750
Value per share:			
Fonterra	$3.0815	$1.3885	$4.4700
Contact Energy	$9.0000	$0.4000	$9.4000
Sanford	$4.0213	$0.6587	$4.6800
Precinct Properties	$1.1150	$0.1100	$1.2250
Ballance	$9.0000	–	$9.0000
Value of holding:			
Fonterra	12,671	5,710	18,381
Contact Energy	11,925	530	12,455
Sanford	8,353	1,368	9,721
Precinct Properties	892	88	980
Ballance	466	–	466
Total equity investments	**34,307**	**7,696**	**42,003**

We have estimated the market values of these shares as at the Valuation Date, using publicly available historical closing share price information. The shares of Fonterra, Contact Energy, and Precinct are reasonably liquid, and we have simply adopted the closing share price for the particular shares on 29 January 2025.

We have not adjusted the book value for the Ballance shares. There is no established market for trading Ballance shares, but that company commonly transacts its own shares, with a current price as at 29 January 2025 of $9.00 per share (which is the same as REL uses for its balance sheet value).

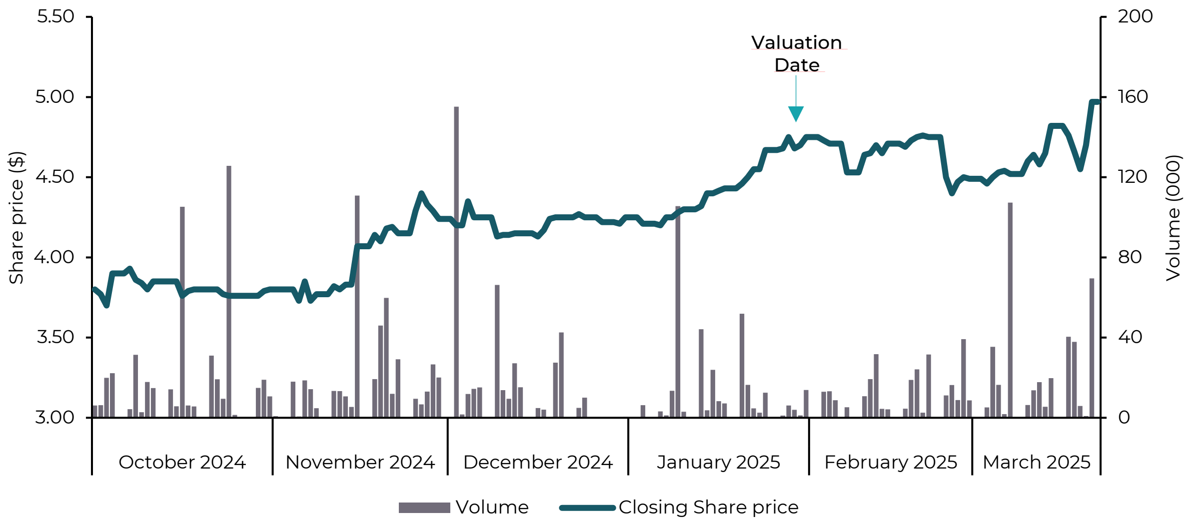
[5] The tax adjustment of $99,000 is ultimately a change to the 'provision for tax'. However, is included as part of the adjustment to 'feed on hand' in this determination to simplify the presentation.

[6] REL purchased an additional 62,000 shares in Fonterra on 30 and 31 January 2025. As such the actual number of Fonterra shares held by REL was 4,050,000 as at 29 January 2025. We have not adjusted the number of shares in Table 3 because the lower number of shares at the earlier Valuation Date is offset by having not yet incurred the obligation to pay for the shares.

Sanford shares are thinly traded on the NZX. Its historical share price is illustrated in Figure 1. We have ultimately determined a price per share of $4.68, after taking account of the following:

- Sanford's closing share price was $4.68 on 29 January 2025.
- Sanford's daily VWAP was $4.6984 on 29 January 2025, albeit on very low volumes.
- Sanford's weekly VWAP was $4.6677 in the week ended 29 January 2025.
- REL acquired 77,212 shares, at prices of between $4.21 and $4.35 per share, between 20 December 2024 and 17 January 2025.
- Sanford's share price tended to be around $4.70 in the days surrounding 29 January 2025.

Figure 1: Sanford share price and trading volume



4.6 Real estate assets

REL's balance sheet includes $141,685,000 for real estate assets.

In our valuation, we have adjusted for the difference between the book values of the real estate, as at 31 January 2025, and the market values of those properties. Our adjustment is set out in Table 4.

Table 4: Real estate adjustment ($ 000)

	Book value 31 Jan 2025	Adjustment	Valuation 29 Jan 2025
Flimby and Wentworth	19,480	(1,383)	18,097
Middle Hills	9,900	847	10,747
Sold real estate	**29,380**	**(536)**	**28,844**
Eiffelton	19,402	1,285	20,686
Isleworth	11,452	899	12,350
Rocklea	9,642	879	10,520
Milford	8,702	679	9,380
Penshurst	13,952	449	14,400
Shenstone	9,952	529	10,480
Highlands	6,520	96	6,616
Rollesby	5,200	130	5,330
Marchfield	6,500	30	6,530
Pukekura	4,950	–	4,950
Hastings commercial office	1,110	–	1,110
Waikoha	14,926	74	15,000
Remaining real estate	**112,305**	**5,047**	**117,352**
Total real estate assets	**141,685**	**4,511**	**146,196**

Flimby, Wentworth, and Middle Hills

We have set the fair market value of Flimby, Wentworth, and Middle Hills based on the agreed sale prices for these properties.

We have made an adjustment of $153,000 to the net proceeds of Flimby and Wentworth to account for plant and equipment included in the sale, lessee improvements that will need to be purchased, tax on depreciation recovered that will need to be repaid, on settlement. Similarly, we have made an adjustment of $53,000 to the net proceeds of Middle Hills for plant and equipment included in the sale and tax on depreciation recovered.

Remaining real estate

We have set the fair market value of the remaining real estate assets based on the midpoint values assessed by Property Advisory, with a valuation date of 29 January 2025.

We have made one further adjustment to reduce the fair market value of Eiffelton by $64,000, to reflect post-tax impact of deferred maintenance, which we understand needs to be incurred on Eiffelton's irrigation system.

4.7 Plant and equipment

REL's balance sheet includes $545,000 for plant and equipment.

As at 29 January 2025, REL primarily held vehicle assets at its Middle Hills and Waikoha sites. The vehicles at the Middle Hills site had generally been held for a long duration, and so their book value was below their fair market value. We have assessed a $52,000 adjustment to these vehicles, to reflect their fair market value being above their book value.

4.8 Right-of-use asset and lease liability

REL's balance sheet includes a right of use asset and lease liability. These almost offset, but not exactly, because of the different accounting approaches in terms of NZ IFRS 16 Leases. We consider these items should fully offset for valuation purposes, so have set both to $0.

4.9 Forests

Balance sheet value

REL's balance sheet includes $1,651,000 for forest assets.

The forest assets are almost all held as part of the Waikoha Station farm, located in the Waikato.

In addition to the forestry assets held on REL's balance sheet, there is a further amount of land at around $900,000, which is associated with land used for the forest assets. Therefore, the total value recorded on REL's balance sheet for forest assets and associated land is around $2,551,000.

The forest assets are unlikely to be sold separate from the Waikoha Station farm. Nevertheless, we consider the value associated with the forest asset (including associated land) can be valued separately from the rest of the farm.

Value from stumpage rights

REL is able to harvest the timber (or sell the rights to harvest) once the various forest assets reach maturity (or earlier although that is less cost effective).

Based on a discount rate of around 8.5%, a long-term growth rate of around 2%, and the following assumptions, which have been advised as being reasonable by REL management, the value of stumpage rights is minimal prior to pruning and thinning costs being incurred:

- A current value for stumpage rights at around $25,000 per hectare.
- Pruning costs at around $3,000 per hectare in each of years three and seven (following planting).
- Thinning costs at around $2,000 per hectare in year ten (following planting).

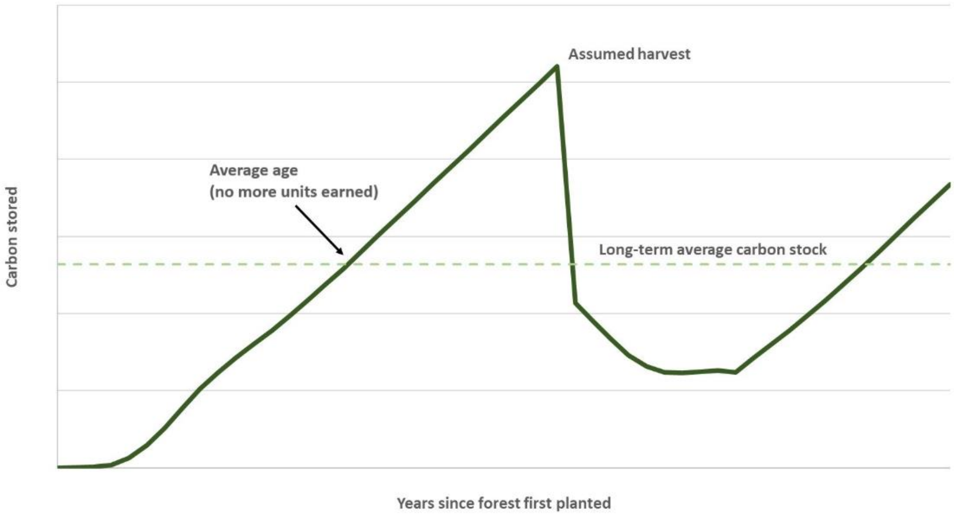
The present value of future stumpage income becomes more material once the associated pruning and thinning have been incurred. In addition, the pruning and thinning costs are not required to generate NZUs, so from a commercial perspective, should generally only be incurred in areas where the harvest rights are expected to at least offset the pruning and thinning costs.

In these circumstances, we estimate the current value of stumpage rights at $195,000, taking account of the capitalise pruning and thinning costs ($128,000 post tax), and allowing for return on capital since these costs were incurred.

NZUs

Around 281.5 ha of land owned by REL generates carbon units (**NZUs**). This land is registered under an 'averaging accounting' methodology. The averaging accounting methodology allows for NZUs to be earned for an initial period over the 'first rotation' of the area, as illustrated in Figure 2.

Figure 2: Carbon stored under an averaging accounting methodology



Source: MPI website

NZUs are only earned on the first rotation of the land – after that the area can keep being used to grow and harvest trees, but no further NZUs are earned. The period over which NZUs are generated is 16 years for Radiata pine.

We have estimated the value of the NZUs to be generated at $3,750,000. This compares to $2,700,000 assessed by Northington Partners at the midpoint. The key difference in our assessments is Northington Partners assumes a midpoint NZUs price of $60.00 nominal terms applies for the whole forecast period (the price decreases in real terms each year). In contrast, we have assessed a rate that is between the following two series:

- A price of $63.45 per NZUs, based on the market price for NZUs as at 29 January 2025, with this increasing at 2% per annum in nominal terms.
- The floor prices for the Government auctions between 2025 and 2029, from $68.00 to $82.00 per NZUs, and thereafter increasing at 2% per annum in nominal terms.

In other words, we assess the long-run mid-case for NZUs prices at below the floor prices set by the Government auctions, but above the current exchange price, with both adjusted for inflation.

Adopted adjustment

Based on our assessments of the value associated with stumpage and NZUs, we have made an adjustment of $1,394,000 for the forest assets, which is the difference between the book value of the forest assets including the underlying land ($2,551,000) and our assessment of the value expected to be generated from the stumpage rights and NZUs ($3,945,000).

4.10 Deferred tax

REL's balance sheet includes $2,005,000 for deferred tax liability as at 30 June 2024, and has not been updated for the 31 January 2025 balance sheet.

Northington Partners adjusted the deferred tax liability by around $1.4 million, for the position associated with buildings.[7] We agree with making this adjustment. We assess the value of the deferred tax liability associated with buildings at $1,375,000.

[7] Northington Partners' IAR referred to the deferred tax relating to property revaluations. However, while it does partly relate to revaluations, it also includes simply the difference between the value for accounting and tax purposes, which is not entirely related to revaluations.

We consider further adjustments are needed to the deferred tax liability to remove a deferred tax liability associated with the forest assets. The forest assets have been fully expensed for tax purposes, but are recorded at a value of $1,447,000 on the 30 June 2024 balance sheet, causing a deferred tax liability of $405,000 (the need to incur tax once revenue is earned, without being able to offset it further against the cost recorded on the balance sheet). We consider this deferred tax liability should be removed because we have captured the payment of tax in our assessment of the value of the forest asset, and including this liability again as a deferred tax liability would double-count the impact.

The remaining deferred tax liability of $225,000 represents a net position of deferred tax assets and liabilities. The residual balance mainly reflects the accounting value of plant and equipment being above the tax value. For valuation purposes, the deferred tax position will not immediately unwind, as such we consider the actual value of the deferred tax position is below its book value. We therefore make a further deduction of $65,000 to the deferred tax liability to take account of the time-value-of-money.

Based on the above, we assess the net value of the deferred tax liability at $160,000, being $2,005,000 less $1,845,000, which is comprised of:

- $1,375,000 liability associated with buildings;
- $405,000 liability associated with forest; and
- $65,000 net liability associated with the time-value-of-money.

4.11 Provisions for property transactions

REL's balance sheet includes a liability of $2,362,000 for 'provisions for real estate transactions'. This includes both $2,905,000 for deposits received, partially offset by $543,000 of transaction costs paid but not yet expensed through REL's financial statements.

We have made a $550,000 adjustment to 'provisions for real estate transactions', as shown in Table 5.

Table 5: Provisions for real estate transactions adjustment ($ 000)

	Book value 31 Jan 2025	Adjustment	Valuation 29 Jan 2025
Deposits received (liability)	2,905	–	2,905
Transaction costs paid but not yet expensed	(543)	543	–
Future legal fees	–	7	7
Provisions for real estate transactions	**2,362**	**550**	**2,912**

We make no adjustment to the deposits received. In our real estate adjustment, we compare the full transaction price for the sold properties to their book value, without adjusting for REL only receiving the amount net of deposits when the transaction settles.

We adjust the transaction costs because while this balance effectively reflects an asset as at 31 January 2025, it will ultimately be expensed. In addition, REL management advises the transaction costs are offset against capital gains or added to capital losses, so there is no tax benefit from incurring these costs.

Appendix 1: Sources of information

Documents relied upon

Key information sources we have used and relied on in preparing this determination include the following:

- Annual report for the financial year ended 30 June 2024.
- Management accounts for the seven months ended 31 January 2025.
- Rural Equities Limited target company statement dated 20 December 2024, including the independent adviser's report dated 20 December 2024 prepared by Northington Partners.
- Property valuations prepared by Property Advisory Limited:
  - full valuations with a valuation date of 30 June 2024,
  - 'desktop' valuations with a valuation date of 30 November 2024, and
  - 'desktop' valuations with a valuation date of 29 January 2025.
- Fonterra Co-operative Group Limited forecast farmgate milk price market announcement dated 5 December 2024.
- Publicly available historical closing share price information.
- NZ IFRS 16 Leases.
- Publicly available historical information on forestry carbon unit pricing.

We have also had limited discussions and correspondence with REL's executives in relation to the nature of the business operations and REL's management accounts where we consider it relevant to our valuation. REL has asked us to record that REL considers it has a business that requires corporate oversight and management, and REL considers we have not taken that into account.

Reliance upon information

In forming our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by REL and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry, and examination for the purposes of forming our opinion, but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audit on the accounting or other records of REL. We do not warrant that our enquires would reveal any matter that an audit, due diligence review, or extensive examination might disclose.

Appendix 2: Qualifications and declarations

Qualifications

Calibre Partners is an independent New Zealand Chartered Accounting practice. The firm has established its reputation nationally through the provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because we have no audit or tax divisions, we avoid potential conflicts of interest that may otherwise arise. This allows Calibre Partners to regularly act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this determination are Shaun Hayward (BCom, BProp, CFA) and Gillian Andrews (BSc, BCom, PGDip, CA, CFA). Both have significant experience in providing corporate finance advice on mergers, acquisitions, and divestments, advising on the value of shares, and undertaking financial investigations.

Disclaimers

This determination should not be used or relied upon for any purpose other than as an expression of Calibre Partners' opinion as to fair and reasonable value of REL in the circumstances. Calibre Partners expressly disclaims any liability to any party that relies, or purports to rely, on this determination for any other purpose.

This determination has been prepared by Calibre Partners with care and diligence, and the statements and opinions given by Calibre Partners in this determination are given in good faith and in the belief, on reasonable grounds, that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Calibre Partners or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this determination, provided that this shall not absolve Calibre Partners from liability arising from an opinion expressed recklessly or in bad faith, or which cannot be disclaimed by law.

Indemnity

H&G has agreed that, to the extent permitted by law, it will indemnify Calibre Partners and its partners, employees and officers in respect of any liability suffered or incurred as a result of, or in connection with, the preparation of this determination. This indemnity does not apply in respect of any negligence, misconduct or breach of law. H&G has also agreed to indemnify Calibre Partners and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person, except where Calibre Partners or its partners, employees and officers are guilty of negligence, misconduct or breach of law, in which case Calibre Partners shall reimburse such costs.

Independence

Calibre Partners and the persons responsible for the preparation of this determination do not have at the date of this determination, and have not had, any shareholding in, or other relationship, or conflict of interest with H&G, REL or REL's shareholders that could affect our ability to provide an unbiased opinion in this matter.

Calibre Partners will receive a fee for the preparation of this determination. This fee is not contingent on the success or implementation of the transaction or any transaction complementary to it. Calibre Partners and the persons responsible for the preparation of this determination have no direct or indirect pecuniary interest or other interest in this matter.

A draft of this determination was provided to REL, solely for the purpose of verifying the factual matters contained in this determination. While minor changes were made to the drafting, no material alteration was made to the methodology or conclusions of this determination as a result of issuing the draft.

Consent

Calibre Partners consents to the issuing of this determination to REL's current and objecting shareholders, and to its public distribution by the Takeovers Panel.

Neither the whole nor any part of this determination, nor any reference thereto, may be included in any other document without the prior written consent of Calibre Partners as to the form and context in which it appears.