



Silverwood Forest Corporation & Company
C/- Geca Chartered Accountants Limited
Level 2, 98 Carlton Gore Road, Newmarket, Auckland, 1023

27 February 2015

Dear Special Partner,

Proposed transition to a Limited Partnership

Enclosed are the following documents and reports:

- Notice of Special General Meeting
- Information Memorandum (containing additional information for special partners)
- Proxy Form

Please find attached the documents relating to the Special General Meeting to be held at Monday 30 March 2015 at the offices of Besra Gold Inc - Level 11 – 57 Fort Street, Auckland CBD, commencing at 3pm.

All special partners are invited to attend the meeting in person. Alternatively, all special partners entitled to attend and vote at the meeting are entitled to appoint a proxy to attend and vote for them instead.

The only business proposed to be considered at the Special General Meeting will be the special partners' resolution in respect of the transition to a limited partnership under the Limited Partnerships Act 2008 on terms and conditions that are substantially the same as described in the Information Memorandum attached to the Notice of Meeting.

In relation to business to be attended to at the Special General Meeting please review the Information Memorandum that accompanies the Notice of Meeting.

General Partner's Recommendation

The General Partner believes that approval of the transition to a limited partnership is the best outcome for the Special Partnership and its special partners and therefore recommends you vote, or your proxy votes, in favour of the transition at the Special General Meeting on **Monday, 30th March 2015**, commencing at 3pm.

The reasons for this conclusion are:

- The transition is effectively being forced on us because of the sunset period applicable to all Special Partnerships and the need to either transition to a limited partnership or wind up (or face the prospect of reverting to become a general partnership – with investors losing the protection of limited liability).
- The transition to a limited partnership structure has the benefit of attaining a similar tax status to that of a Special Partnership – with the ability to attribute (pass through to investors) any operating losses made by the limited partnership, the same as the present Special Partnership – subject to the application of the loss limitation rule described in the Information Memorandum.
- The absence of other viable alternatives – that provide similar characteristics at a reasonable cost (in terms of both transition and ongoing operation).

If you are unable to attend the Special General Meeting, you may appoint the chairman of the meeting as your proxy, to vote on your behalf. At the request of the Statutory Supervisor, and after discussions with the Financial Markets Authority, the General Partner has concluded that approval of the proposed transition requires the approval of the votes representing 75% of the capital contributions of all Special Partners whose votes are cast at the meeting. As a result, we would encourage you to vote or appoint a proxy to vote at this meeting.

Please read the documentation carefully and seek professional advice or contact any of the following if you have any queries regarding the proposed transaction:

Peter Tiedemann

Tel: 021 764 664

E: pect@xtra.co.nz

Tony Loveday

Tel: (04) 4998 826

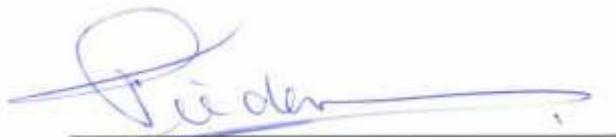
E: tony@citystop.co.nz

Malcolm Johnson

Tel: (04) 479 3377

E: aratas@xtra.co.nz

**Yours sincerely,
for the General Partner**



Peter Tiedemann



**Silverwood Forest Corporation Limited & Company
(Land Partnership)
Notice of Special General Meeting**

Notice is hereby given by Silverwood Forest Corporation Limited the “**General Partner**”) that a Special General Meeting of special partners of **Silverwood Forest Corporation Limited & Company** (the “**Special Partnership**”) will be held Monday 30 March 2015 **at 3pm** at the offices of Besra Gold Inc - Level 11 – 57 Fort Street, Auckland CBD, commencing at 3pm.

Business

The business of the Special General Meeting is to consider, and if thought fit, to pass the following resolution:

“That for the purposes of facilitating the transition of the Special Partnership to become a limited partnership under the Limited Partnerships Act 2008, the transfer by the Special Partnership of all of its assets and associated contracts, rights and obligations to ***Silverwood Land 2015 Limited Partnership*** which has been formed as the successor to the Special Partnership, and the subsequent dissolution of the Special Partnership and the transfer of its remaining assets (being limited partner units in ***Silverwood Land 2015 Limited Partnership*** issued in satisfaction of the transfer value of the Special Partnership’s assets and associated contracts, rights and obligations) to the special partners on terms and conditions that are substantially the same as described in the attached Information Memorandum, be approved.”

At the request of the Statutory Supervisor, and after discussions with the Financial Markets Authority, the General Partner has concluded that approval of the proposed transition that is the subject of the Special General Meeting requires the approval of votes representing 75% of the capital contributions of all special partners whose votes are cast at the meeting – in order to demonstrate support for the proposed transition.

All special partners are invited to attend the Special General Meeting in person. Alternatively, all special partners entitled to attend and vote at the meeting are entitled to appoint a proxy to attend and vote for them instead.

Persons entitled to vote

The only persons entitled to exercise votes at the Special General Meeting will be those who are registered as special partners at 31 January 2015, and only the units registered in those special partners' names at that time will carry a right to vote at the meeting. This does not limit the right of eligible special partners to appoint a proxy (or, if they are a company, a corporate representative).

Proxies

All special partners entitled to attend and vote at the Special General Meeting are entitled to appoint a proxy to attend and vote for them instead.

A proxy need not be a special partner.

A proxy form is enclosed and to be effective must be lodged with the chairman of the meeting before the meeting is due to begin (i.e. before 3pm on **Monday, 30th March 2015**). If a proxy is appointed under a Power of Attorney, a copy of the Power of Attorney must be lodged, together with evidence of non-revocation of such Power of Attorney.

Special partners can appoint the chairman of the meeting (Malcolm Johnson) as their proxy to vote on their behalf. A representative of the Statutory Supervisor will also attend the meeting and is willing to be appointed as a proxy to vote on your behalf. It is the intention of the chairman of the meeting, on the basis of advice from the General Partner, to vote any proxies without direction in favour of the resolution.

**By order of the General Partner
Silverwood Forest Corporation Limited**



Peter Tiedemann

INFORMATION MEMORANDUM
(Additional Information for Special Partners)

This Information Memorandum has been prepared for the information of special partners of **Silverwood Forest Corporation Limited & Company (Land Partnership)** in relation to the business to be conducted at the Special General Meeting. The purpose of this Information Memorandum is to provide special partners with information that is reasonably required by special partners to decide how to vote upon the resolution. The General Partner recommends that special partners read this material before voting on the resolution.

A simplified version of the structure of the relationship between the parties affecting the successor limited partnership is attached (as an Appendix).

Background

The Special Partnership was formed under Part 2 of the Partnership Act 1908. Special partnerships were a popular investment vehicle in the 1980s and continued to be relatively common into the 1990s. Under Part 2 of the Partnership Act 1908, a special partnership had a finite life of not more than 7 years, but any such special partnership could be rolled over (renewed) at the end of that period.

Whilst special partnerships were formed as investment vehicles in the 1980s and 1990s for a wide variety of investments, some short-term, others of indeterminate length – their legacy as an investment vehicle in the forestry sector has been an increased administrative burden. Specifically, an investment in a single-crop rotation pinus radiata forest with an average lifespan from planting to maturity of 25+ years would typically require the special partnership to be rolled over (renewed) three times. If the special partnership was not renewed at the end of each 7-year term it would effectively revert to being a “general” (ordinary) partnership. One of the detrimental impacts of doing so is that the special partners would lose the benefit of limited liability.

This was promoted as one of the features of the special partnership model and meant that the special partners could not be compelled to make any further contribution beyond the specific capital that they originally committed to the partnership. By contrast, it is one of the fundamental characteristics of a general partnership that every partner is liable jointly with the other partners for all debts and obligations of the partnership incurred while they are a partner (and upon their death; their estate is also severally liable in a due course of administration for such debts and obligations as far as they remain unsatisfied).

Part 2 of the Partnership Act was repealed by the Limited Partnership Act 2008 – with the objective of establishing a modern regulatory regime for limited partnerships. One of the key points of distinction between a special partnership and the new regime is that, unlike a special partnership, a limited partnership is a separate legal entity with continuous existence similar to that of a company. And, as discussed in more detail below, it also provides a limited partner with the protection of limited liability.

The transitional provisions in the Limited Partnerships Act provide that Part 2 of the Partnership Act continues to apply to a special partnership in existence on the commencement of the Limited Partnerships Act as if Part 2 had not been repealed, except that a special partnership must not be renewed (rolled over). As a result, all existing special partnerships in existence have been faced with the need to either:

- transition to the limited partnerships regime under the Limited Partnerships Act; or
- wind up.

This choice is perhaps best illustrated in the case of special partnerships formed as a vehicle for forestry investment – where the investors will only be likely to achieve a return on their investment on maturity of the forest and the harvesting and sale of the timber. Put simply, those investors are left with little choice other than to transition to the limited partnerships regime.

There is little by way of transitional machinery in the Limited Partnerships Act itself. In practice, the transition is achieved by the transfer of the assets and associated contracts (and other rights and obligations of the special partnership) to a new limited partnership as a successor. To facilitate this process, the Taxation (Limited Partnerships) Act 2008 replaces earlier rules that would have treated the cessation of a special partnership and the creation of a limited partnership as a crystallising a tax event. Instead, under the new rules created by that Act, a simple transition from a special partnership to a limited partnership will not generally have income tax consequences for the partners (subject to the requirement that the business and ownership of the partnership remains the same after transition). See the discussion below under the heading ‘The advantages of a limited partnership structure’.

Rather than wait until the last minute in the current 7-year lifespan of the Special Partnership, the General Partner has concluded that for a number of practical reasons, including the need to secure the Securities Act exemption described below, it was preferable to seek to transition a number of special partnerships that are under the same management and which have the same statutory supervisor at the same time.

Transition steps

The proposed sequence of process steps to be undertaken to transition from a special partnership to a (successor) limited partnership is:

- **Step 1: Formation of successor limited partnership** – with the approval of the statutory supervisor (see discussion below) a new limited partnership was formed with a nominal initial capital.
- **Step 2: Transfer of the business and assets**– the assets (primarily comprised of the balance of the land on which the forest was planted) and associated contracts, rights and obligations of the Special Partnership are, with the approval of special partners, to be transferred at their existing carrying values, as disclosed in the financial statements to the new (successor) limited partnership in consideration for limited partner units in the new limited partnership.
- **Step 3: Dissolution of the Special Partnership** – the Special Partnership will be dissolved and its remaining assets (being limited partner units in the successor limited partnership) will be transferred to the special partners. This transfer is on the basis that the business and ownership of the limited partnership will, after this final step in the transition process, remain the same and thereby meet the requirements of the Taxation (Limited Partnerships) Act 2008.

For ease of administration, the General Partner of the Special Partnership is acting as the General Partner of the (successor) limited partnership – so that there will be continuity of the public face of the limited partnership and the ongoing relationships with investors, contractors and other internal and external stakeholders. The directors and shareholders of the General Partner are:

Peter Tiedemann 55-63 Red Hills Road, Waitakere City, Auckland	Eoin Malcolm Miller Johnson 11 Satara Crescent, Khandallah, Wellington, 6035
Anthony Sydney Loveday 82 Bolton Street, Kelburn, Wellington, 6012	Peter Bradney Bould Arbor Management Limited 219 Victoria Avenue, Wanganui, 4500

Securities Act exemption

As noted above, the Limited Partnerships Act does not provide an extensive transition mechanism for existing special partnerships wishing to transition to become a limited partnership. The steps to achieve the transition that are outlined above will involve an “offer” of units in the successor limited partnership to the special partners that would be likely to be subject to the (prospectus and investment statement) disclosure regime under the Securities Act 1978.

As a result, it has been necessary to apply to the Financial Markets Authority (“**FMA**”) for an exemption from the prospectus and the investment statement disclosure requirements of the Securities Act for the distribution of limited partner interests (units) that will be made to unit holders in the Special Partnership.

The FMA has indicated that it is prepared to grant that exemption because the recipients of the “offer” are (exclusively) the existing investors in the Special Partnership. It is expected that the FMA will grant the exemption prior to the date of the Special General Meeting on 31 March 2015. Those investors have previously decided, many years ago, to invest in the relevant forestry development, and are already familiar with the assets and business by virtue of both their initial decision to invest and the subsequent receipt of annual reports and annual financial statements in respect of “their” forest and, in the case of Silverwood, the ownership of the underlying land after the forest had been harvested. This means that the information needs of investors are different from that prescribed by the prospectus and investment statement disclosure regime under the Securities Act.

Also, this transition process is being imposed on the existing investors, by virtue of the transitional provisions in the Limited Partnerships Act. There is no suitable ‘do nothing’ option that would enable the investors to decide that they prefer to continue to hold their investment interests by means of the existing investment structure as this would likely lead to the Special Partnership becoming a “general” partnership at the end of its current lifespan.

Consequently, recognising that the existing investors must now evaluate the proposed transition of their investment into a limited partnership, the exemption is expected to be granted on terms that:

- require investors to receive material information with the notice of meeting to vote on the proposed transition to a limited partnership to enable them to make an informed decision; and

- contemplates that a statutory supervisor will be appointed in relation to the (successor) limited partnership to act in the interests of the limited partners - to protect investors' interests and property rights.

Disclosure of Interest

Arbor Management Limited (the “**Manager**”) has agreed to act, on an interim basis, as manager of the Special Partnership. The Manager will act in this capacity only for the duration of the transition process in order to achieve conformity with the management arrangements affecting the eight other that are the subject of the Securities Act exemption described above. Thereafter, it is contemplated that Wholesale Products Trading Limited, a company which is substantially owned and managed by Peter Tiedemann will take over the role of the Manager and will continue in that role on behalf of the successor limited partnership as well as take on a handful of further, mostly minor, administrative and management tasks. To this end, the exemption expected to be granted by the FMA contemplates that a formal management contract (the “**Management Agreement**”) be entered into between the Manager and the General Partner on behalf of the successor limited partnership. Even before any formal transfer, it is contemplated that a number of the administrative and management tasks required for the transition process will be performed by Wholesale Products Trading Limited (the “**Subcontractor**”).

Pending the formal transfer an interim arrangement will be put in place whereby all or substantially all of the services to be provided under the Management Agreement will be sub-contracted to Wholesale Products Trading Limited (on a back-to-back basis) on the basis that:

- the obligations of the Manager under the Management Agreement become the obligations of the Subcontractor; and
- the rights and remedies of the General Partner under the Management Agreement can be enforced by the Manager against the Subcontractor.

As a result it is anticipated that the following management fees will be payable to the Subcontractor for performing management and administrative services on behalf of the limited partnership pursuant to the Management Agreement for the ensuing year:

- Administration expenses, including:
 - accounting and audit fees
 - professional fees and secretarial charges
 - communication costs
 - fees payable to the Statutory Supervisor

These fees and charges, excluding the costs associated with transition to a limited partnership (and before offset by any income earned by the Limited Partnership) are budgeted at \$45,000 - \$50,000 for the ensuing year.

Once the transition process has been completed, it is anticipated that the Management Agreement will be formally transferred to the Subcontractor. At that point, any necessary changes will be made to that agreement to reflect the specific range of management services that are anticipated will be provided by the Subcontractor in future (which are expected to be narrower in scope than those specific by the Management Agreement). It is not anticipated that this process will bring about any material change to the budgeted level of fees and charges.

The directors and shareholders of the Manager are:

Directors

Peter Scott Martin	Peter Scott Martin	Richard Mason Mandeno
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Shareholders

Peter Scott Martin	Jeffrey Ray Martin
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The directors and shareholders of the Subcontractor are:

Directors

Peter Tiedemann	Noor Christina Tiedemann
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Shareholders

Peter Tiedemann	Noor Christina Tiedemann	Douglas Scott Tiedemann
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Why the approval of special partners is required

Although the existing Deed of Participation for the Special Partnership contemplates that the business of the Special Partnership (for which the General Partner of the Special Partnership is responsible) includes that of selling, or otherwise dealing with or disposing of any property acquired by the Special Partnership – the transition process also contemplates the dissolution of the Special Partnership which must be approved at a meeting called for the purpose. After discussions with the statutory supervisor and the FMA, the General Partner has concluded that implementation of the proposed transition should be subject to a hurdle of obtaining the approval of votes representing 75% of the capital contributions of all special partners whose votes are cast at the meeting – in order to demonstrate a substantial level of support for the proposed transition (including the dissolution of the Special Partnership).

Statutory Supervisor

The existing statutory supervisor of the Special Partnership is Covenant Trustee Services Limited (the “**Statutory Supervisor**”). A statutory supervisor is required to be appointed by the Securities Act for both the Special Partnership and the limited partnership. The Statutory Supervisor has agreed to continue in that role for the (successor) limited partnership.

In undertaking this role, the Statutory Supervisor does not guarantee repayment of interests in either the existing Special Partnership or the successor limited partnership.

As at the date of the notice of meeting, the Statutory Supervisor has been granted a full licence under the Securities Trustees and Statutory Supervisors Act 2011, to act as a statutory supervisor in respect of participatory securities, both the interests of a special partner in a Special Partnership and the interests of a limited partner in a limited partnership being “participatory securities”. The licence expires on 18 February 2018 and is subject to conditions. Those conditions and further information about the Statutory Supervisor’s licence is publicly available on the FMA website (www.fma.govt.nz).

In addition to the matters contained in the Limited Partnership Agreement governing the relationship between the General Partner, the limited partners, and the limited partnership – the relationship between the General Partner, the limited partnership and the Statutory Supervisor is set out in a Deed of Participation, which will replace

the Deed of Participation currently in place for the Special Partnership and has been updated to recognise the transition to a limited partnership.

The land on which the forest was previously situated is held in the name of a nominee controlled by the Statutory Supervisor who currently holds that land on behalf of the Special Partnership and who will, following the transition, hold the land on behalf of the limited partnership.

The General Partner has the following reporting obligations to the Statutory Supervisor:

- the General Partner must provide the Statutory Supervisor with the audited financial statements for the limited partnership, together with a report from the auditor addressed to the Statutory Supervisor that to the best of their knowledge (among other matters) there are no matters warranting the Statutory Supervisor's attention or, if there are such matters, details of those matters;
- the General Partner must provide a quarterly certificate to the Statutory Supervisor certifying (among other matters) the General Partner's compliance with the Deed of Participation and any matters that have occurred since the last certificate that materially adversely affect the limited partnership; and
- the General Partner must notify the Statutory Supervisor immediately if it becomes aware of any default under the Deed of Participation by any party.

What is a limited partnership?

A limited partnership is an investment vehicle created by the Limited Partnerships Act 2008. The main reason for their introduction was to replace Special Partnerships as an investment structure to attract venture capital into New Zealand. To date, this new investment structure has not received widespread use, however its use is growing and, from the perspective of the General Partner, transition to a limited partnership is a logical step in light of the limited lifespan of the Special Partnership.

A limited partnership has almost identical tax status to a Special Partnership (and can attribute operating losses to limited partners – the investors) but those investors are protected by limited liability in the same way as shareholders in a limited liability company. Limited partnerships are typically structured so as to comprise multiple investors with limited liability (the limited partners) and one general partner responsible for the management of the limited partnership, who is also liable for its activities.

A limited partnership is a separate "legal person", distinct from its owners (i.e. the partners), in the same way that a company is distinct from its shareholders. Unlike a Special Partnership under Part 2 of the Partnership Act, a limited partnership does not have a limited lifespan. Instead it continues to exist until deregistered – much like a company.

The limited partnership must, upon registration, have a written Limited Partnership Agreement. The agreement has the effect of a contract between the limited partnership, the general partner and each limited partner. Any partners entering into a limited partnership after initial registration of that limited partnership will be bound by the Limited Partnership Agreement.

In addition to the Limited Partnership Agreement, a new Deed of Participation (between the General Partner, the limited partnership and the Statutory Supervisor) will regulate the operation and governance of the limited partnership. The new Deed of Participation is effectively an updated version of the existing Deed of Participation that governs the relationship between the Special Partnership and the Statutory Supervisor.

The Limited Partnership Agreement deals with the following matters affecting the operation and governance of the limited partnership:

- Objectives
- Committed Capital and Partnership Interest
- Rights and Duties of The Partners
- Allocations of Liabilities, Profits And Losses
- Distributions
- Changes to the General Partner
- Transfer of interests of Limited Partners
- Issue of Limited Partner Units
- Conflicts of Interest
- Termination and Liquidation
- Financial Statements, Reports and Auditors
- Meetings of Partners
- Insurance
- Attorneys and Proxies of Limited Partners
- Statutory Supervisor
- Dispute Resolution
- Indemnification
- Confidentiality
- Transition Arrangements (governing the transition between the Special Partnership and its successor limited partnership)

The new form of Limited Partnership Agreement, along with the Deed of Participation and Management Services Agreement have been prepared and may be inspected on the Special Partnership's website (www.silverwoodcorporation.co.nz) or a copy obtained prior to the meeting by emailing Peter Tiedemann (email: pect@xtra.co.nz). Copies will also be available for inspection at the meeting.

Whilst it can be said that many, if not most, of the differences between the rules that currently regulate the operation and governance of the Special Partnership and the terms of the Limited Partnership Agreement are attributable to a combination of the more detailed framework provided by the Limited Partnerships Act 2008 and the fact that it is 20+ years since the Special Partnership was formed and modern governance documents are more detailed, there is a significant change that is worthy of bringing to investors' attention.

The Special Partnership was formed with a fixed (specified) capital on the basis that special partners were not required to contribute any amounts towards the capital of the Special Partnership – beyond their initial capital contribution. Over the years, this has presented difficulties in some cases where the circumstances of the Special Partnership changed and additional capital has been required. This was difficult to achieve as any such change required an amendment to the deed of participation with

the approval of special partners holding not less than 75% of the capital of the partnership.

The Limited Partnership Agreement provides the flexibility for the General Partner to require that limited partners contribute additional capital where, for example, it may be more economical to have the limited partners' fund the costs of any further work on the balance of the land on which the forest was planted rather than borrow the funds from a bank.

As an alternative, there is an option of issuing additional limited partner units either to current limited partners or by admitting new limited partners to the limited partnership. In order to do this, the Limited Partnership Agreement requires the approval of 'Special Resolution' of the limited partnership, being a resolution:

- passed at a meeting of the limited partners by limited partners holding at least 75% of total limited partner units; or
- a written resolution signed by limited partners representing at least 75% of total limited partner units.

Once approved in this manner, an issue of new limited partner units can be made in a manner that reflects the usual process for most companies (other than companies listed on a recognised stock exchange) whereby all existing limited partners have pre-emptive rights, requiring:

- the General Partner to offer the new limited partner units to the existing limited partners in proportion to the number of the existing limited partner units held by those limited partners (which they may accept or decline);
- the offer must specify a time within which the offer, if not accepted, will be treated as having been declined (and must also invite limited partners to indicate whether they wish to acquire more limited partner units than the number to which they are entitled if all offers to limited partners are not accepted);
- after the expiry of the time for acceptance (if the offer is not accepted or is accepted only in part), the General Partner may offer any shortfall to those limited partners who have indicated that they wish to acquire more than their entitlement - in proportion to the number of their existing limited partner units; and
- if there still remains a shortfall – then the General Partner is likely to seek to offer the limited partner units to any other person who may be interested provided that the consideration and terms of issue are no more advantageous to that person than those offered to the existing limited partners.

A limited partnership must have at least one general partner and one limited partner at all times. A person may not be both a general partner and a limited partner at the same time. General partners are responsible for the management of the limited partnership. A general partner has authority to bind the limited partnership and acts as an agent of the limited partnership for the purpose of the limited partnership's business.

Loss Limitation Rule

The key point of difference in the tax status of a limited partnership and that of a special partnership is what is known as a 'loss limitation rule' that affects limited partnerships. That is, the income, expenses, tax credits, rebates, gains and losses are allowed to flow through to individual limited partners in the same way as for a special partnership – however, these items will generally be allocated to the limited partners in proportion to each limited partner's share in the partnership's income. This ensures that limited partners' tax losses are restricted if the amount of the loss exceeds the tax book value of their investment so that limited partners can offset tax losses only to the extent they reflect their economic losses.

To retain their limited liability, the limited partners must be passive investors who are specifically excluded from participation in the management of the limited partnership. This is not dissimilar to the provision in Part 2 of the Partnership Act that provided that the personal involvement of a special partner in the business or in any contract of the Special Partnership will result in them being deemed to be a general partner with respect to the contract or matter (and thereby lose the benefit of their limited liability). A limited partner has no authority to bind the limited partnership and is not an agent of the limited partnership or any other limited partner. Upon meeting a capital contribution, a limited partner has the right to receive distributions and any other benefit conferred by the limited partnership agreement.

The limited partnership will end when it is de-registered on completion of a winding up or a terminating event. Certain terminating events are outlined in the Limited Partnerships Act 2008 and act as automatic triggers towards de-registration. If the limited partnership wishes to terminate at a specific event, it may specify its own terminating event within the limited partnership agreement.

The interests of the limited partners will be divided into and represented by a similar number of limited partner units as the number of units on issue in the Special Partnership. Each limited partner unit entitles the holder thereof to the same rights and subjects such holder to the same obligations as the holder of any other limited partner unit. As a result, each of the existing special partners will effectively exchange their respective Special Partnership units for the same number of limited partner units – with the result that they will hold the same proportionate interest in the income and assets of the successor limited partnership (i.e. the land on which the forest was previously located).

Subject to the ability of offer units to new limited partners as a means of raising capital (discussed earlier), it is not intended that the limited partnership will issue further limited partner units to anyone other than the existing holders of special partnership units in the Special Partnership.

At all meetings of the limited partners, each limited partner will be entitled to one vote for each limited partner unit held.

The advantages of a limited partnership structure

The primary advantages of choosing to transition to a limited partnership structure is seen by the General Partner as being that a limited partnership has a similar tax status to a special partnership which means it has the ability to attribute (pass through to investors) any operating losses made by the limited partnership, the same

as the present Special Partnership – subject to the application of the loss limitation rule noted above.

It should also be noted that the Special Partnership's tax advisers have advised that¹:

- There is no specific provision in the Income Tax Act 2007 or the Limited Partnerships Act which deals with tax losses of a special partnership that transitioned to a limited partnership. However, the general thrust of the provisions is that when and if a special partnership transitions to a limited partnership - no tax provisions are triggered. As a result, they conclude Parliament intended that existing special partnership tax losses would survive the transition and be available to the limited partnership.
- Once in the limited partnership the question arises as to whether those tax losses are still subject to the previous provision limiting them to offsetting against future limited partnership income, and whether they are subject to the new loss limitation rules that apply to limited partnerships. (The loss limitation rules for limited partnerships apply at the limited partner level and not the limited partnership level. The stated rationale for this being to ensure that the tax losses claimed reflects the level of the person's economic loss.) There are no equivalent provisions applicable to the special partnership rules that deal with the special partnership losses effectively being corralled at the special partnership level, and available only against future special partnership income.
- In their opinion, so long as the limited partners are the same as the special partners when the tax losses arose, and the same business continues throughout, the logical outcome is that the limited partnership itself is able to utilise and offset the special partnership tax losses against limited partner income. Adopting this approach recognises the tax restrictions placed on special partnerships and flows through to those special partnerships that transition. The loss limitation rule that applies to limited partners will still apply in that they are not directly able to access the transitioned special partnership tax losses, which will sit with the limited partnership until there is limited partnership income to offset the tax losses.

The disadvantages of the limited partnership structure

The primary disadvantages of choosing to transition to a limited partnership structure is seen by the General Partner as being:

- Transition to a limited partnership requires a number of steps to be implemented which have been estimated as costing as much as **\$70 per unit**.
- The future sale of units in a limited partnership is deemed to be a disposal of the underlying assets. Section HG5 of the Income Tax Act 2007 creates a \$50,000 threshold under which this taxation treatment does not apply. Section HG4 of the Income Tax Act 2007 also provides an exclusion from a taxable event occurring where the total turnover for the partnership in the income year of disposal is \$3million or less which may be applicable while Silverwood continues in the same business as that conducted prior to transition – of ownership and management

¹ The information is intended for general tax information purposes only and does not constitute tax advice. The information is based on legislation current at the date of the Information Memorandum. The application of taxation laws depends upon individual circumstances. Investors should seek professional advice on the taxation implications based on their own specific circumstances.

with its residual assets (primarily comprised of the balance of the land on which the forest was planted).

- In the event that a limited partner participates in "management decisions ", that limited partner (investor) no longer has limited liability. This risk is seen as relatively low because it is anticipated that those "management decisions" will only be made by the General Partner (subject to the terms of the Limited Partnership Agreement and the Deed of Participation).
- A possible lack of investor familiarity with limited partnerships – which may have a negative impact on the saleability of limited partner units. The General Partner does not think that this will be a major issue as a limited partnership still contains the key elements of limited liability, tax efficiency and investor control that are a feature of the existing special partnership structure.
- The loss limitation rule that affects limited partnerships to ensure that limited partners' tax losses are restricted to the extent that the amount of their proportionate share of the limited partnership's losses exceeds the tax book value of their investment.

Implementation constraints

Implementation of the transition to a limited partnership requires:

- Approval of the exemption application submitted to the FMA. The FMA has responded positively to the discussions to date and the application submitted. Without that exemption it is likely that transition to a limited partnership would be too expensive to implement.
- The agreement of Covenant Trustee Services Limited in its capacity as Statutory Supervisor of the existing Special Partnership. Covenant Trustee Services Limited has given its approval in principle to the transition, subject to a number of requirements which the General Partner regards as entirely reasonable.
- Investor approval by a resolution supported by votes representing at least 75% of the capital contributions of all votes cast at the meeting of investors in the existing Special Partnership.

Absence of other viable alternatives

For completeness, investors should note that the General Partner of the Special Partnership has concluded that transition to a limited partnership is the best available alternative. In large part this is as a result of a conclusion that there are no other viable alternatives that provide similar characteristics or advantages at a reasonable cost (in terms of both transition and ongoing operation).

Specifically, the alternative of transition to a 'look-through-company' structure ("**LTC**"), which passes through the taxation consequences of operating losses and profits to shareholders, was considered. An LTC structure would also have the benefit of providing investors with limited liability protection and, at harvest, each investor's share of the harvest revenue would pass through to the investor without being taxed at the LTC level.

However, a range of factors, including:

- complicated rules affecting who can be a shareholder in an LTC – and restricting the number of shareholders to five or fewer persons (meaning that there would need to be a partnership of LTC's);
- uncertainty about the taxation treatment of the transfer of the Special Partnership's assets to an LTC; and
- uncertainty about the treatment of the existing taxation losses incurred by the Special Partnership to date,

when coupled with the costs of implementing an LTC structure meant that this alternative was ruled out as presenting a viable solution.

Conclusions

Subject to approval of the exemption being sought from the FMA, the agreement of Covenant Trustee Services Limited in its capacity as Statutory Supervisor of the Special Partnership and approval by special partners of the Special Partnership, transition to the limited partnership is achievable.

As noted above, a limited partnership has all the key attributes of the Special Partnership plus a number of advantages. The only disadvantage of the transition are the costs of the transition process, which is effectively being forced on the Special Partnership as a result of the sunset period applicable to all existing special partnerships, plus the consequences of transfers of interests in the limited partnership which have a different tax status (if over the thresholds of \$50,000 and \$3 million) and are a little more complex.

However, as noted above, there is no “do nothing” option and, on the basis of advice from the Special Partnership's tax advisers, and in light of commercial objectives, the General Partner has concluded that other alternatives to a limited partnership are unattractive.

The following table provides a basis for comparison of the number of relevant items for investors.

Characteristic	Special Partnership	Limited Partnership
Attribution of operating losses to investors	✓	✓ ²
Tax efficiency	✓	✓
Same financial outcome for all investors	✓	✓
Simplicity	✓	✓
Ease of transfer	✓	✓
Cost to implement	Sunk cost – but sunset period means no do nothing option	estimated as costing as much as \$70 per unit
Limited liability	✓	✓

²Subject to the loss limitation rule.

Completion steps

The transition to a limited partnership is conditional on the following transition steps being satisfied:

- approval by the special partners of the Special Partnership – by the votes of a majority of representing 75% of the capital contributions of all special partners whose votes are cast at the meeting;
- approval by the Statutory Supervisor; and
- the FMA granting the exemption described above.

Completion of the transfer of the assets from the Special Partnership to the Limited Partnership is interdependent on each of these conditions being satisfied. If the conditions are not satisfied, then the transfer will not occur and it will be necessary to do all things reasonably necessary to put the parties in the position they would have been in prior to the approval of the special partners, being that sought at the Special General Meeting, having been given. As noted above, there is no 'do nothing' option for the Special Partnership as it is destined to expire before the completion of the sale of the land on which the forest was previously located – and cannot be renewed.

Quorum

The existing Deed of Participation governing the Special Partnership provides that the quorum for any meeting is that number of special partners holding in total not less than 16 units or 12.2% of the nominal capital contribution of the special partners. If a quorum is not present within half an hour of the time appointed for the meeting, the meeting will be held irrespective of the number of units represented in the Special Partnership.

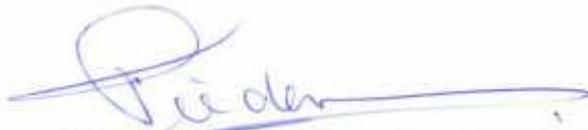
Recommendation

Following careful review and consideration of all strategic options, the General Partner of the Special Partnership is recommending to special partners that they approve the transition of the Special Partnership to a limited partnership (including the transfer of its assets (including the land) and associated contracts, rights and obligations to Silverwood Forest Corporation Limited & Company).

The General Partner of the Special Partnership encourages special partners to attend the Special General Meeting and vote on this resolution or to appoint a proxy to vote at the Special General Meeting. Special partners can appoint the chairman of the meeting (Malcolm Johnson) as their proxy to vote on their behalf. A representative of the Statutory Supervisor will also attend the meeting and is willing to be appointed as a proxy to vote on your behalf. To appoint a proxy, simply complete and sign the enclosed Proxy Form and return it to the General Partner of the Special Partnership prior to the commencement of the meeting at 3pm on **Monday, 30th March 2015**. It is the intention of the chairman of the meeting to vote any proxies given to him without direction in favour of the resolution.

Signatures

Signed by or on behalf of all directors of Silverwood Forest Corporation Limited as the general partner of Silverwood Land Limited Partnership:



Peter Tiedemann



Peter Bradney Bould
(by his agent John Miles Kenrick Brown)

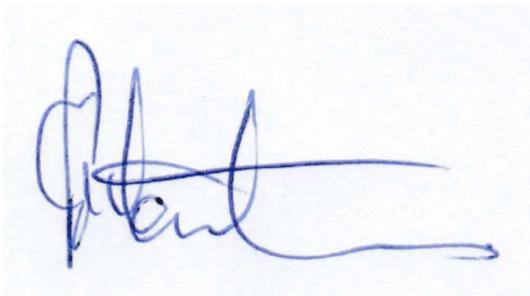


Eoin Malcolm Miller Johnson



Anthony Sydney Laveday

Signed on behalf of **Arbor Investments Limited** as promoter of the limited partner units by:



Peter Scott Martin

Proxy Form

I/We _____ (full name)
of _____ (address)
being a special partner of Silverwood Forest Corporation Limited & Company (Land Partnership)

hereby appoint _____ (name of proxy)
or failing him or her _____ (name of alternate)

as my/our proxy to vote for me/us and on my behalf at the Special General Meeting of special partners to be held Monday 30 March 2015 at the offices of Besra Gold Inc - Level 11 – 57 Fort Street, Auckland CBD, commencing at 3pm, and at any adjournment thereof.

I/We direct my/our proxy to vote in the following manner:

Business:

Transition of the Special Partnership to a limited partnership (including the transfer of its assets and associated contracts, rights and obligations to Silverwood Land 2015 Limited Partnership)

For the reasons described in the Information Memorandum all of the special partners are asked to approve the proposed transition by a majority representing 75% of the capital contributions of all Special Partners whose votes are cast at the meeting

Tick appropriate box	
For	Against

SIGNED of this 2015 day

Notes

- **This form is to be used in favour of/against the resolution.**
- Unless otherwise instructed the Proxy will vote or abstain from voting, he or she thinks fit.
- If you are joint holders of Special Partnership units, each of you must sign this proxy form. If you are a company, this proxy form must be signed on behalf of the company, by a person acting under the company's express or implied authority.
- For this proxy form to be valid, you must complete it and send it in the reply paid envelope for your convenience.
- Proxy Votes must be received by before the meeting is due to begin (i.e. before 3pm on **Monday, 30th March 2015**). If the proxy has been signed under a power of attorney, please send a copy of the power of attorney (unless already deposited with us) and a signed certificate of non-revocation of the power of attorney with this proxy form. If you return this form without directing the proxy how to vote, the proxy will vote as he or she thinks fit.

Completed Proxy forms are to be posted, faxed, e mailed or delivered to:

Silverwood Forest Corporation Limited
C/- Geca Chartered Accountants Limited,
Level 2, 98 Carlton Gore Road, Newmarket,
Auckland, 1023.
(PO Box 99 081, Newmarket, Auckland
1149).

or scan and email to:

pect@xtra.co.nz **or**
Fax to 09 524 0271.

Appendix

