

REWETU STATION LIMITED
C/- P O BOX 541
OPOTIKI

Phone (07): 315 7034

Fax: (07) 315 7038

23rd November, 2006

The Trustees of Whakapaupakihi Blocks 2 & 5

Dear Trustees

We enclose a draft outline of a proposal for a joint venture for the above blocks. This has been developed after a meeting with three of your trustees last week and is preliminary to a further meeting proposed for 10.00am on Wednesday 29th November 2006.

The meeting is proposed to be held at my place: 918 State Highway 35, Opotiki
My Phone Number is (07) 315 7850

Kind Regards



^{ps}
Ray Sharp

REWETU STATION LTD
C/- PO BOX 541
OPOTIKI

Phone: (07) 315 7034

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REWETU STATION LIMITED OFFER TO THE OWNERS OF WHAKAPAUPAKIHI BLOCKS 2 & 5

OPTION 1: Straight lease for 10 years

Rental for No 2	37500
Rental for No 5	15000 (reduced from current rental as we need to fund the replacement of shearing plant, water supply & electricity)

OPTION 2: Joint Venture

50/50 split of profits after costs

After costs including a baseline rental to Whakapaupakihi Blocks of \$42,000

Rental Allocated as follows:

No 2	30000
No 5	<u>12000</u>
	42000

Joint venture would need to be for a minimum of 10 years

The joint venture would undertake a capital development programme as follows:

No 2

Allowance for drainage, culverts, stump clearance, initial cultivation and fencing	20000
Capital fertiliser	30000
Capital Lime	35000

No 5

Balance of flats, drainage, culverts, initial Cultivation	10000
Fencing Tidy-up	5000
Woolshed Plant	5000
Water Supply and Electricity	5000
Capital Fertiliser/Lime	15000

In consideration of the joint venture company undertaking the above capital development programme, we would request acceptance by the owners of a reduced rental for the first 2 years to the following:

No 2	20000
No 5	10000

General Description of Scheme

The objective would be to lift the farms stocking capacity/production from 9 stock units per hectare to 15 stock units per hectare and thereby produce significant profits for the joint venture company.

The joint venture agreement would provide for 3 yearly reviews for the following

- Rent to owners
- Management fee to Rewetu Station Ltd
- Interest rate on funds required at minimum of bank borrowing rate

The joint venture would be operated in a new company owned 50% by Rewetu Station Limited and 50% by the Whakapaupakihi 2 & 5 Blocks. Directorship to be 2 nominated by Rewetu Station Limited & 2 nominated by Whakapaupakihi 2 & 5.

Administration work & Bookkeeping to be contracted to G.W Hill – Farm Consultant to report 3 monthly to directors meeting with updated financial statements.

Hunting protocols to be developed by directors of J.V company with a view to having a permit system in place.

Rewetu Station Limited to provide the funds for the joint venture company for the farming of the blocks. This is estimated to be approximately \$500,000. This would probably increase to approximately year 3 with increased stock requirement and then decline as the joint venture company builds its assets out of accumulated surpluses.

Farming Proposal

To progressively crop development and renew pastures on cultivatable areas. Capital fertilizing and liming to bring farms to their potential.

<u>Effective areas of Farms</u>	<u>Area</u>	<u>Assessed Carrying Capacity</u>
Whakapaupakihi No 5	75 ha	750 S.U
Whakapaupakihi No 2	387 ha	3750 S.U
NB: No 2 has been assessed as:		
Good pasture	300 ha	
Rough	87 ha	
Swamps/Creeks beds etc	43 ha	
Bush	<u>364 ha</u>	
	794 ha	

Allocation of rental between blocks is assessed on approximate carrying capacity of each block with an additional allowance to No. 5 for facilities (woolshed yards, sheds, shearers quarters, house.)

We consider that the development and farming method proposed will see the carrying capacity of each block increased to 15 stock units per effective hectare within 4 years. We also believe that this will result in us being able to make returns nearer the upper \$80 gross margin per stock unit instead of \$60-\$70 gross margin per stock unit being the lower levels included in the budget.

This is the area where we consider the joint venture proposed has the ability to add value for both joint venture partners.

Stocking would be by way of approximately 2,500 breeding ewes and the balance made up of beef cattle bought in, grown on and finished.

The advantage of these Whakapaupakihi blocks is that there is a good percentage of flat to easy land on the blocks with a reasonably sheltered aspect which we are confident can perform well under the proposed farming regime.

The regime would include an element of winter available crops followed by regressing to new gross type pastures to give better wintering of stock and improved pasture performance.

The joint venture partner, Rewetu Station Ltd is experienced in this farming and has developed its own property at Matawai to an advanced level with winter stocking around 25 stock units per hectare.

Management would be provided by Rewetu Station Ltd through Jeff Bakalich an experienced farmer and livestock agent. Co director for Rewetu Station for the joint venture company would be Ray Sharp (farmer, retired chartered accountant and company director.) Rewetu Station Ltd has farmed successfully for 15 years.

We see the joint venture company providing an opportunity for the land owners to gain equity in the livestock over the term of the joint venture to enable them to carry on the farming operation themselves at the end of it. This would require a payment to Rewetu Station Ltd for their equity remaining in that joint venture company at the end of the joint venture term.

The key advantages for the land owners in this proposal are:

- Access to dedicated good farm management with a vested interest in making the project work.
- Access to the capital for farming without risk to the land owners.
- Sharing of management at a directorship level providing a capacity building opportunity.
- Transparency so that the landowners can see the results of the farming and development of their land.
- Development of the owners land to a higher production level than is feasible under a straight lease.
- Opportunity to build the landowners equity while still enabling them funds from the base rental to provide a payout to the shareholders of the blocks.
- Allowing the landowners to have an input into development and management discussions on their land.

Indication of what Whakapaupakihi Blocks are likely to receive from this joint venture using a mid-range return expectation is:

	<u>No 2</u>	<u>No 5</u>
<u>Year 1</u>		
Rental	20000	10000
Share of Joint Venture Profit	<u>13777</u>	<u>6333</u>
(50% of \$40000)	33777	16333
<u>Year 2</u>		
Rental	20000	10000
Share of Joint Venture Profit	<u>23333</u>	<u>11667</u>
(50% of 70000)	43333	21667
<u>Year 3</u>		
Rental	30000	12000
Share of Joint Venture Profit	<u>20714</u>	<u>8286</u>
(50% of \$58000)	50714	20286
<u>Year 4</u>		
Rental	30000	12000
Share of Joint Venture Profit	<u>42143</u>	<u>16857</u>
(50% of \$118000)	72143	28857
<u>Year 5</u>		
Rental	35000	15000
Share of Joint Venture Profit	<u>45500</u>	<u>19500</u>
(50% of \$130000)	80500	34500
<u>Year 6</u>		
Rental	35000	15000
Share of Joint Venture Profit	<u>47250</u>	<u>20250</u>
(50% of \$135000)	82250	35250

Note:

- Share of profit has been split between the blocks based on proportionate base rental.
- The mid range profit has been used to calculate the above figures.

Next Step – Further meeting between trustees of blocks 2 & 5 to discuss/develop proposal on Wednesday 29th November 2006 at Ray Sharps residence at 9.30am.

For Rewetu Station Ltd

Ray Sharp
Jeff Bakalich

BUDGET
FOR JOINT VENTURE PROPOSAL BETWEEN WHAKAPAUPAKIHI 2 5 BLOCKS AND REWETU STATION LTD

	2007		2008		2009		2010		2011		2012			
	\$60	\$70	\$60	\$70	\$80	\$60	\$70	\$80	\$60	\$70	\$80	\$60	\$70	\$80
Profit margin per stock unit		4,500		5,000		5,500		6,000		6,300		6,300		6,300
Estimated winter stocking rate/ha		360,000		400,000		440,000		480,000		504,000		504,000		504,000
Gross Profit	270,000	315,000	300,000	350,000	400,000	330,000	365,000	440,000	360,000	420,000	480,000	378,000	441,000	504,000
Farming Costs														
Animal Health	18,000		19,000		20,000		24,000		25,000		25,000		25,000	
Fertiliser	40,000		40,000		50,000		50,000		50,000		50,000		50,000	
Power	3,000		3,000		3,000		3,000		3,000		3,000		3,000	
Fencing & maintenance	10,000		10,000		10,000		10,000		10,000		10,000		10,000	
Wages casual	10,000		10,000		10,000		10,000		10,000		10,000		10,000	
Wages	35,000		35,000		35,000		35,000		35,000		35,000		35,000	
Shearing	8,000		9,000		10,000		10,000		10,000		10,000		10,000	
ACC	5,000		5,000		5,000		5,000		5,000		5,000		5,000	
Insurance	3,000		3,000		3,000		3,000		3,000		3,000		3,000	
Rates	5,000		5,000		5,000		5,000		5,000		5,000		5,000	
Seeds	10,000		10,000		10,000		10,000		10,000		10,000		10,000	
Cultivation	15,000		15,000		15,000		15,000		15,000		15,000		15,000	
Accountancy	5,000		5,000		5,000		5,000		5,000		5,000		5,000	
Administration	5,000		5,000		5,000		5,000		5,000		5,000		5,000	
Vehicle exes	10,000		10,000		10,000		10,000		10,000		10,000		10,000	
Rent to Owners	30,000		30,000		42,000		42,000		42,000		50,000		50,000	
Interest on funds required	43,000		46,000		49,000		40,000		40,000		35,000		30,000	
Management fee	20,000		20,000		20,000		20,000		20,000		25,000		25,000	
		\$275,000		\$280,000		\$307,000		\$302,000		\$311,000		\$306,000		\$306,000
Joint Venture Profit	5,000	40,000	20,000	70,000	120,000	23,000	58,000	172,000	67,000	130,000	193,000	72,000	135,000	198,000

Capital Expenditure -

Drainage, culverts, cultivation, fencing	35,000
Woolshed, plant	5,000
Water & electricity	5,000
Capital Fert	80,000
	<u>160,000</u>