Potts & Hodgson

BARRISTERS & SOLICITORS

12 January 2007

Our ref: 445.3

Henry Hollis

1532 State Highway 2

RD7/

Te Puke

John Hata PO Box 110

Opotiki

Leonard Brown

Bells Road

RD ,

Waimana

Pehimana Brown 752 Main Road Waerengaahika Gisborne 3871

Tarati Carrington 53 King Street Opotiki

Re: REWETU STATATION JOINT VENTURE

Enclosed is a package comprising Heads of Agreement with an attached draft Joint Venture Agreement, draft Leases, draft Constitution, draft Management Contract and draft Agreement as to finance. I understand that you are meeting to consider this proposal. Each party should be separately advised. We have prepared these documents at the instruction of Rewetu Station Limited and the trustees need to seek legal advice as to their position.

Yours faithfully

POTTS & HODGSON

IAN PETERSON

Solicitor

email: ian@pottshodgson.co.nz

IRP5k2

cc

Rewetu Station Limited

HEADS OF AGREEMENT REWETU JOINT VENTURE

Parties:

- 1. **REWETU STATION LIMITED** ("Rewetu")
- 2. THE TRUSTEES of Whakapaupakihi No 2 block ("Whakapaupakihi 2")
- 3. THE TRUSTEES of Whakapaupakihi No 5 block ("Whakapaupakihi 5")

Purpose

The purpose of this Agreement is to broadly record the parties' intentions and commitment to each other in the joint venture enterprise of developing and profitably operating a dry stock farming operation on the land of Whakapaupakihi 2 and 5 using the services and capital of Rewetu Station Limited and the land of Whakapaupakihi 2 and Whakapaupakihi 5.

The parties hereto will enter into a joint venture shareholders agreement in the terms set out in the deed attached hereto once the company is established.

Whakapaupakihi 2 and Whakapaupakihi 5 will enter into a lease agreement with the JV Company on the terms set out in **Schedule One**.

The parties will establish a joint venture company with the special rights attaching to shares and the form of constitution which is **Schedule Two**.

The JV Company shall engage Rewetu Station Limited in a management contract the terms of which are set out in **Schedule Three**.

Rewetu will provide to the JV Company such funds as are required by it for the purposes of the joint venture on the terms and with the security set out in **Schedule Four.**

The Trustees execute this Deed as trustees of the of Whakapaupakihi No. 2 Block and Whakapaupakihi No. 5 Block Trusts and their liability shall not be personal but shall be limited to the assets of the said Trusts.

DATED this	day of		2007
<u>SIGNED</u> by THE TRUSTEES of WHAKAPAUPAKIHI 2 Block)	
Henry Russell Hollis - Trustee			
John James Hata - Trustee			
Leonard Ananui Brown - Trustee			

SIGNED by THE TRUSTEES of WHAKAPAUPAKIHI 5 Block)
Henry Russell Hollis - Trustee	
John James Hata - Trustee	
Leonard Apanui Brown - Trustee	
Pehimana Haapu Brown - Trustee	
Tarati Carrington - Trustee	
SIGNED for and on behalf of REWETU STATION LIMITED by)
Raymond Bruce Sharp - Director	
Jeffery Steven Bakalich - Director	

Raymond Bruce Sharp - Director

Jeffery Steven Bakalich – Director

ANNEXURE THREE TO HEADS OF AGREEMENT

MANAGEMENT CONTRACT

BETWE	CEN	LIMITED ("Joint Venture Company)		
AND	REWE	TU STATION LIMITE	ED ("Rewetu")	
*				
BACKO	ROUND:			
The Joint Venture Company is formed for the purposes of a joint venture to farm Whakapaupakihi No. 2 and Whakapaupakihi No. 5 Blocks as a drystock farming operation.				
The Joint Venture parties have agreed to engage Rewetu as manager of the farming operation in order to maximize the return to the joint venture.				
THE PA	ARTIES AGREE:			
A That from the commencement date to the termination date Rewetu is be engaged as manager of the farm operation with the objectives, the responsibilities and authorities, set out in Schedule 1.				
B The consideration paid to Rewetu for its management services is set in Schedule 2.				
DATED	this day of		2007	
SIGNEI	O for and on behalf of LIMITED)	- Director	
-,		,	- Director	

SIGNED for and on behalf of REWETU STATION LIMITED

by two of its Directors

SCHEDULE 1

Objective

- Rewetu shall be the manager, purchasing and selling agent of the farming business of the Joint Venture Company with the objective to increase the farm stocking capacity and production from 9 stock units per hectare to 15 stock units per hectare and thereby increase the profits to the Joint Venture Company.
- To attend to the development of pasture and change in farming methods to more intensively use the land with the objective of increasing to 15 stock units per effective hectare within 4 years of commencement date. The objective will be to lift the gross margin per stock unit from between \$60 to \$70 gross margin per stock unit to a target of \$80 per gross margin stock unit.
- Rewetu to provide dedicated good farm management according to the best standards of husbandry in the district and with the objective of meeting the draft budget in the proposal considered by the Joint Venture Parties on Wednesday the 29th November 2006.
- To work with the directors of the Joint Venture Company to allow hunting in accordance with the hunting protocols set out by the Joint Venture Company.
- The Joint Venture Company shall buy and sell stock maintaining breeding ewes, purchasing beef cattle, growing on and finishing that stock. The Joint Venture Company shall undertake capital development on No. 2 Block including drainage, installation of culverts, clearing of stumps, cultivating and fencing increased application of fertilizer and lime. The Joint Venture Company shall undertake capital development of Whakapaupakihi 5 including drainage installation of culverts and initial cultivation of the balance of the flats, tidying up fencing, improvements to the woolshed plant, water supply and electricity and the increased application of capital fertilizer and lime.
- The Joint Venture Company shall progressively crop develop and renew pastures on cultivatable areas and apply capital fertilizer and liming to bring the farms to their potential.
- The effective areas of the farms has been assessed at Whakapaupakihi No. 5, 75 hectares, Whakapaupakihi No. 2, 387 hectares with Whakapaupakihi No. 2 having 300 hectares good pasture, 87 hectares rough pasture. The management regime will include an element of winter available crops followed by regrassing to new grass type pastures to give better wintering of stock and improved pasture performance.

SCHEDULE 2

1	The management fee payable to Rewetu shall be \$20,000.00 per annum plus GST.
	This amount shall be reviewed every three years on the anniversary of the
	commencement date.

ANNEXURE FOUR TO HEADS OF AGREEMENT

AGREEMENT AS TO FINANCE

AND	LIMITED	("Company")

- 1. Rewetu Agrees to advance to the Company the initial amount of \$500,000.00 and such other amounts as are required from time to time by the Company as is agreed to from time to time within a maximum amount of credit agreed to from time to time between Rewetu and the Company.
- 2. Interest Rate

The annual percentage rate shall be set at the commencement date at a figure no less than the interest rate available to Rewetu Station Ltd from a bank for a rural term loan of three years and shall be reviewed on every third anniversary of the commencement date.

3. Term of Advance

The advance shall be for 3 years and then on demand made in writing.

The Company can repay the financial facility at any time without penalty. The costs of providing security to Rewetu for the provision of security for the advance and for the release of that security shall be paid by the Company.

4. Security

The security to be provided to Rewetu by the Company shall be:

- (a) General Security Agreement given by the Company including security over all present and after acquired assets of the Company with a priority amount of \$800,000.00.
- (b) Mortgage of the Lease of Whakapaupakihi 2 and Whakapaupakihi 5 Blocks

The terms of the security shall be the normal form of general security agreement used by lawyers in Opotiki.

6. Interest shall be paid by the Company to Rewetu on a monthly basis with interest calculated daily on the outstanding debit balance as at the end of each day. The interest rate applied each day is equal to the annual percentage rate applicable at the time divided by 365. Interest will be debited each month during the term and added to the debit amount if it is not paid.

DATED this	day of		2007
SIGNED for and on bel REWETU STATION by two of its Directors)	Raymond Bruce Sharp – Director
			Jeffery Steven Bakalich – Directo

SIGNED for and on behalf of)	
LIMITED)	- Director
by)	