

27 May 2011

Dear Shareholder

ISSUE OF NEW SHARES

- 1 The Board is pleased to **enclose** the following:
 - A Prospectus including application forms for shares. Your application from for conversion shares has been completed however needs to be signed by you.
 - Water Supply Agreement which must be signed and the schedule completed including a copy of your title to the property being irrigated
 - An Investment Statement.
 - Memos (x2) to shareholders including background to the share offer in particular as to the treatment of shareholders loan accounts and the conversion of this account to shares and the share offer itself. Information will be provided to your accountants as to the treatment of your shareholders loan account and other matters in due course.
 - A Letter of Entitlement which sets out your entitlement to purchase new shares and accompanying allocation of water.
- 2 The only substantial change from our earlier correspondence has been in respect of the dates for the payment of shares. The Companies Office is requiring that the minimum amount of shares on offer be fully paid earlier than originally proposed. That is, instead of paying \$53.50 on 1 September and 1 November 2011, applicants for new shares will be required to fully pay for their shares by **26 August 2011**.
- 3 While the offer will be open for four weeks, shareholders who wish to purchase new shares are encouraged to do so as soon as possible. As soon as the minimum requirements are met, the company will be able to progress the Scheme – three weeks saved at this end of the process will likely be significant at the other end. Members of the Board will be in touch with you to discuss and assist with your application. If, however, in the meantime you have any questions regarding the prospectus, please do not hesitate to contact a director.
- 4 **PLEASE RETURN THE SIGNED AND COMPLETED APPLICATION FORMS FOR SHARES AND WATER SUPPLY AGREEMENT TO LEECH & PARTNERS AT LEVEL 1, 161 BURNETT STREET (OR PO BOX 180) ASHBURTON 7740 NO LATER THAN 17JUNE 2011.**

Yours faithfully
VALETTA IRRIGATION LIMITED



Alistair Morrison
Chairman of the Board

VALETTA IRRIGATION LIMITED

27 May 2011

MEMORANDUM

To: Board of Directors, Valetta Irrigation Limited

From: David Stock

1 Board Policy/Initiatives

- 1.1 The Board has adopted a policy relating to the allocation of water which will apply in the future. This policy does not affect any of the existing rights of shareholders. It does convert the existing 'water days' to a litres per second (l/p/s) measurement which can be converted into millimetres of water by a simple calculation.
- 1.2 The Board has also decided to:
 - (a) convert the existing shareholder loan account into shares so that when properties are transferred only shares need to be transferred;
 - (b) divide the shares so a share standard of 100 shares for every 1 l/p/s of water will then apply.
- 1.3 This results in the existing 336 shares of \$20 each being split into 6720 shares of \$1.00 each so each shareholder now holds 20 times the number of shares. Then the shareholder loan will be converted (this happens through the proposed offer of shares) into 312,480 shares of \$1.00 each. Each shareholder will then hold the same proportionate number of shares with each 100 shares representing 1 litre per second of water. 0.58 l/p/s equates to 5mm of water per day.
- 1.4 There will then be a further 120,658 shares available to all shareholders on a proportionate basis. These will be offered at \$112 each in a prospectus. In addition 4000 shares are being issued under an agreement to purchase land essential for the piped scheme.
- 1.5 The water rights that will be available under these shares can only be used for delivery of water:
 - (a) to a property that is within the scheme boundaries or which overlaps those boundaries;
 - (b) with water being available at a maximum rate of 1 litre per second per 100 shares.
- 1.6 If existing shareholders also own land (or have an unconditional agreement to purchase land) in their own name or in the name of a company, trust or other entity that is closely associated with the shareholder by control being materially the same (called 'an associated person') then the shares and water can be accessed by that associated person if so approved by the Board.

2 Proposed Offer of Shares

- 2.1 A prospectus will be registered and a shareholder cannot apply for shares until that prospectus has been registered and an investment statement has been issued by the Company.
- 2.2 Every shareholder will be offered pro rata between them based on the existing number of shares held by them following the transfer of the shareholder loan account of \$396,962 to the Company. The share issue is of 312,480 shares at approximately \$1.25 each being a nominal value of \$1.00 plus a premium. There is no cash required for these shares as the shareholder loan account pays for these shares.
- 2.3 The prospectus will also offer to existing shareholders 124,658 ordinary shares at an offer price of \$112 each. These shares will be offered on the following basis:
- (a) Every 100 shares will have the right to 1 litre per second of water;
 - (b) That water must be used within the Scheme Area;
 - (c) That water can only be allocated where the shareholder has sufficient land for the use of existing water, and the further water applied for, at 0.58 litres per second for every hectare of farm land held.
 - (d) The \$112.00 payable for each share is required to be paid as follows:
 - (i) \$5.00 per share on application;
 - (ii) \$53.50 on 1 September 2011;
 - (iii) \$53.50 on 1 November 2011.
 - (e) There are new water charges that will apply from when the piped scheme starts operating. These are estimated to be:
 - (i) \$1.15 per share to cover ongoing operating costs and expenses including RDR charges, administration, accounting etc.
 - (ii) A fixed charge of \$2.25 per share to cover loan charges increasing after 3 years to \$3.10 per share to cover capital repayments.
- 2.4 There are also some shareholders who have sought extended terms for paying up their share capital. These shareholders will have the option to pay all of the above amounts except the two calls of \$53.50 each if they elect to do so they will pay on the unpaid calls.
- (a) interest on \$107 per share quarterly in arrears at the Company's bank overdraft rate applying from time to time (currently 9.75%);

AND WILL PAY:

(b) the capital of \$107 on 30 April 2014 or before if the shareholder so elects.

This affects holders of 64,695 shares with entitlement to 24,456 shares with a maximum amount of \$2,739,072.

3 **Example**

To explain this as an example set out below is what occurs to a shareholder holding 60 water days.

Share Capital

Present Shareholding	6 shares
Becomes	120 shares
New Shares from loan capitalisation	<u>5580</u> shares
Total shares then held	<u>5700</u> shares

New water/shares offered

Offer of Shares

Offered 2155 new shares
At 100 shares per litre per second equals 21.55 l/p/s

Cost of 2155 new shares:	\$241,360	Payable	
		\$10,775	On application
		\$115,292.50	1 September 2011
		\$115,292,50	1 November 2011
		<hr/>	
		\$241,360.00	
		<hr/>	

Water delivery

Currently .57 litres per second (5700 shares)

New offer 21.55 l/p/s

Then held 78.55 l/p/s

Area of Land

78.55 l/p/s/ @ .58 = 135.43 hectares

If the area as above is more than the area owned by the shareholder then that shareholder shall not be entitled to their full entitlement unless they are able to demonstrate to the satisfaction of the Company that they have sufficient land (whether an agreement for sale and purchase of land or land owned by an associated person) within the scheme area.

MEMO TO SHAREHOLDERS
CONVERSION OF SHAREHOLDER ADVANCE ACCOUNT TO SHARE CAPITAL

Following the Company's AGM held on 18 April 2011, approval was given by shareholders to the conversion of the shareholders advances into share capital. The conversion rate was 1 share for approximately every \$1.25 of loan balance held being a \$1.00 share and 25c premium.

This gives a total of 312,480 shares to be issued or 930 shares for one share currently held e.g. if you hold 6 shares at present (60 water days) this will be firstly converted to 120 \$1.00 shares and the conversion of your advance account would add 5,580 \$1.00 shares, making a total of 5,700 \$1.00 shares held.

The transfer of the advance account into share capital is regarded as a 'cash issue of shares'. This issue will not be subject to taxation.