

Explanatory Note

To The Shareholders of Waimea Irrigators Limited
From Waimea Irrigators Limited
Subject Explanatory Note – Special Meeting

Introduction

- 1 This Explanatory Note accompanies the Notice of Special Meeting dated 12 October 2022 (**Notice**) that relates to the Special Meeting for Waimea Irrigators Limited (**WIL**) that is scheduled for **27 October 2022 (Meeting)**.
- 2 The Notice sets out further details of the Meeting (including the text of the resolution that is proposed to be passed at the Meeting (**Resolution**)).
- 3 This Explanatory Note is intended to supplement the Notice and provide WIL's shareholders (**Shareholders**) with background information as to why the Meeting is being held, the Proposed Amendments to the Irrigator Capacity Term Sheet (**Term Sheet**) and why Shareholder approval of the proposed Resolution is being sought.

Background

- 4 As you will be aware, the Waimea Community Dam (**Dam**) has encountered further difficulties which have given rise to cost overruns that exceed the previous project cost of \$158,400,000.00. The current estimated project cost is \$195,000,000.00. In June 2021, the shareholders approved unprovisioned cost overruns of \$27,475,000.00. Now there are further cost overruns of \$15,583,196.00, and \$195,660.00.00 to cover capitalised interest payable under the Shareholder Loan Agreement between the TDC and WWL dated 12 December 2018 (**2018 SLA**), (a total of \$15,778,856.00) (**Further Cost Overruns**) giving a total irrigator project cost overrun for 2021 and 2022 of \$43,253,856.00.

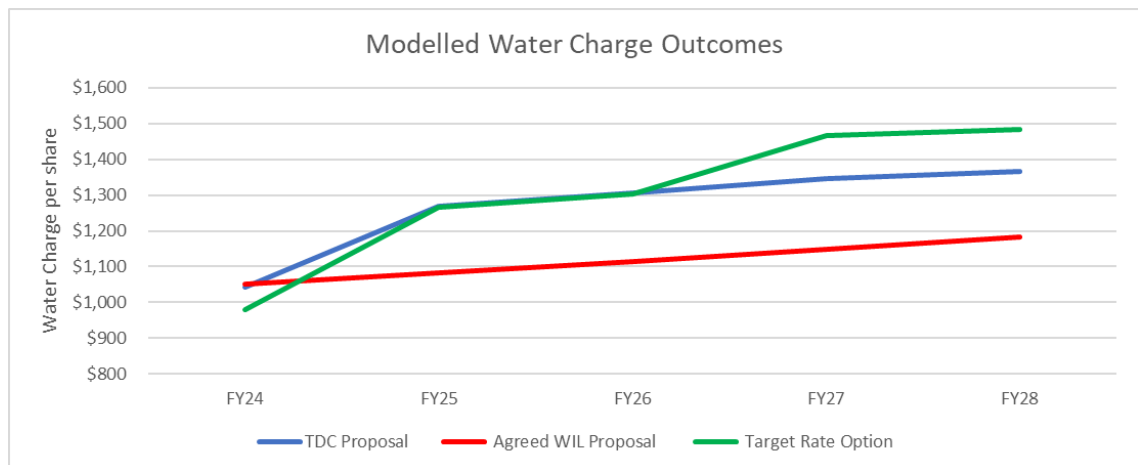
- 5 WIL's new facilities are:

Loan Type	Loan Value
TDC/WWL Shareholder Advance – extension of Facility B (to \$43,253,856.00)	\$15,778,856.00
New Facility C	\$3,000,000.00

- 6 It is proposed that WIL will be responsible for a share of the total borrowing that WWL obtains to finance the Further Cost Overrun (being \$15,778,856.00) resulting in WIL meeting 48.9% of the total project costs. As noted above, the Further Cost Overruns are funded by an extension to the existing Facility B. The total project cost overruns including WIL's and TDC's share is \$30,726,856 (see Schedule below).
- 7 WIL's share of the Further Cost Overrun is slightly higher than its 48.9% share in accordance with the Term Sheet due to changes in the underlying financing arrangements. The SLA 2018 was provided by TDC to WWL in the form of a Shareholder Advance and allocated between TDC and WIL to maintain the required 51.1% and 49.9% share respectively. This loan is being refinanced under this proposal and requires WIL to make a

higher contribution than TDC to compensate for the change in financing arrangements. This is shown in the chart in the Schedule of this Explanatory Note.

- 8 As a result of the refinancing of the SLA 2018, which is a principal and interest facility, with an interest only facility there are cost savings to WIL in excess of \$2.2 million over the next 10 years.
- 9 A new Facility C of up to \$3,000,000 will be provided to enable WIL to fund its share the Debt Service Reserve Account (DSR Account) as defined in the Project Facility Agreement (being a cash account that acts as a reserve for the lender in the event of a default or cash shortfall and is common in infrastructure funding arrangements), scheduled principal repayments under the Project Facility Agreement up to (and including) 30 June 2028 and interest on Facility B up to (and including) 30 June 2028. The purpose of Facility C is to smooth the irrigator water charge increases over time to make the water charges more manageable (see para 12 and graph below).
- 10 Although WIL will not have primary liability for this lending as either a borrower or a guarantor, the Wholesale Water Augmentation Agreement between WIL and WWL (**WWAA**) and other project documents will be amended to provide that the water charge payable to WWL by WIL will be increased relative to WIL's share of the Further Cost Overrun. In turn, the water charge payable by the Shareholders to WIL will be increased to account for the increased amount that WIL will pay to WWL pursuant to the WWAA.
- 11 WIL's obligations to TDC under the Second Ranking General Security Deed (Waimea Community Dam – Waimea Irrigators Limited) dated on or about 23 June 2021 will be extended to secure the above lending.
- 12 The chart below outlines the water charges that have been modelled under various scenarios. The red line represents the expected water charges paid by irrigators on the basis of the proposal the WIL Board is seeking approval for at the Special Meeting. The blue line represents the expected water charges paid by irrigators under a proposal presented to WIL by TDC at the start of negotiations. The green line represents the expected water costs to irrigators if agreement is not reached and TDC apply the Further Cost Overrun to WIL shareholders through Targeted Rates (a combination of existing WIL water charges and targeted rates for the Further Cost Overruns), without taking into account potential anomalies that occur with targeted rates.



- 13 For further detail of the breakdown of WIL and TDC's share of the Cost Overrun and funding of their respective shares, see the Schedule of this Explanatory Note.
- 14 The Term Sheet is on substantially the same terms as the term sheet entered into by WIL and approved by the shareholders in 2021 save that it has been amended to take into account the refinancing of the SLA 2018, the extension of Facility B, and the new Facility C.
- 15 In summary, and as per the Resolution, WIL proposes to be responsible for Further Project Cost Overruns, capitalised interest on the SLA 2018, the DSR Account and the financing of certain repayment amounts and interest to be funded by;
 - (a) TDC/WWL Shareholder Advance – Extension of Facility B for \$15,778,856; and
 - (b) TDC/WWL Shareholder Advance – new Facility C for \$3,000,000.00.
- 16 The effect of these arrangements is that Shareholders will be responsible for WIL's share of the Further Cost Overrun through payment of an increased water charge. The initial water charge payable by Shareholders is expected to increase from \$695.00 per share (being the 2021 figure) to an estimated charge of \$1050.00 per share (being the 2022 figure). The financial modelling that relates to this increase and other supplementary information will be available in the form of a presentation at the Meeting.
- 17 Although WIL's share of the Further Project Cost Overruns will be recovered from Shareholders over time, WIL considers that the overall effect of the arrangement constitutes a "major transaction" and therefore is requesting approval from its shareholders to enter into a Term Sheet with WWL and TDC that will be used as a basis to negotiate these matters in further detail and on usual commercial terms for a transaction of this nature. The Shareholder approval that is being sought will cover all matters that relate to the Cost Overrun and funding. As noted above, a specific breakdown of how the Further Cost Overruns will be funded is set out in the Schedule to this Explanatory Note.
- 18 Despite this further increase in Water Charges, WIL recommends that Shareholders approve the Resolution. This is because WIL believes that sharing the liability of the Further Cost Overrun in the manner described above provides the lowest long term cost to irrigators compared to alternatives considered. The alternative is for TDC to target rate payers in the Zone of Effect to meet the Cost Overruns. In the Board's view, this will create a number of anomalies and inequities, particularly in the case of WIL's smaller shareholders, and expose irrigators to potential cost increases out of their control.

Conclusion

19. We trust that you will find the information contained within this Explanatory Note to be useful and we look forward to your attendance at the Meeting. If you have any questions, please feel free to contact Murray King (murray@kingswayfarms.co.nz) or John Wright (john@melius.nz) in the first instance.

Schedule – Funding Information

Project estimate - October 2022	\$ 194,610,000	
less interest earned + capitalised interest	\$ 2,329,000	
<u>New Funding required</u>	<u>\$ 192,281,000</u>	a
Previous funding max level - June 2021	\$ 164,000,000	
less interest earned + capitalised interest	\$ 2,046,000	
<u>Previous funding required</u>	<u>\$ 161,954,000</u>	b
New funding shortfall	\$ 30,327,000	a - b
Add capitalised interest on \$8.75m loan refinanced	\$ 400,000	
<u>Total funding requirement</u>	<u>\$ 30,727,000</u>	

	TDC	Irrigators	Total
Increase in funding required	\$ 13,577,000	\$ 16,408,000	\$ 29,985,000
Capitalised interest SLA 2018	\$ 204,000	\$ 196,000	\$ 400,000
New equity	\$ 9,092,000		\$ 9,092,000
Repay SLA 2018 *refer paragraph 7	\$ (7,958,000)	\$ (792,000)	\$ (8,750,000)
Adjust for first \$3m allocation of cost overruns at 50:50	\$ 33,000	\$ (33,000)	\$ -
<u>Increase in Facility B</u>	<u>\$ 14,948,000</u>	<u>\$ 15,779,000</u>	<u>\$ 30,727,000</u>
Additional Facility C		\$ 3,000,000	
Project funding split (Equity + Shareholder Advnace)	51.1%	48.9%	

All figures rounded to nearest \$1000