

Explanatory Note

Date 18 May 2021
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 (**Notice**) that relates to the Special Meeting for Waimea Irrigators Limited (**WIL**) that is scheduled for 2 June 2021 (**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 in relation to the Irrigation Capacity Term sheet (Term sheet) as to why the Meeting is being held 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 a number of matters which have given rise to cost overruns that total \$53,673,696 in excess of the previous project cost of \$104,400,000. The current estimated project cost is \$158,400,000.00. The existing lending documentation provided for cost overruns of up to \$3,000,000 to be funded by Facility C under the original CIIL project facility, which means that the total amount of the un-provisioned cost overrun is \$50,673,696 (**Cost Overrun**).
- 5 Waimea Water Limited (**WWL**) (being the entity that was incorporated to construct and operate the Dam) will raise total of \$50,673,696 in order to finance the Cost Overrun. This amount is made up of:

Loan Type	Loan Value
Interest free loan from Tasman District Council (TDC)	\$18,000,000
Interest only loan from TDC	\$18,371,437
Equity contribution fromfrom TDC	\$14,302,259
Total	\$50,673,696

- 6 It is proposed that WIL will be responsible for 48.9% of the total borrowing that WWL obtains to finance the Cost Overrun (being \$24,779,437). 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 WIL by WWL will be increased relative to WIL's share of the 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. 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.

- 7 The Term Sheet provides for estimated project costs of up to \$164,000,000 and an Irrigator Capacity Cost Overrun of \$27,726,000 (rounded up to \$28,000,000) after allowing for the first \$3,000,000 of cost overruns payable under the Project Deed. This is to provide some headroom for further increases in cost.
- 8 As per the Resolution, WIL proposes to be responsible for project cost overruns of up to \$28,000,000, to be funded in the following manner:
 - (a) an interest free pass-through loan from TDC to WWL of up to \$8,802,000 (known as "Facility A"); and
 - (b) an interest only loan pass-through loan from TDC to WWL of cash drawdowns of up to \$18,924,000 and with a facility limit (including drawdowns to fund refinancing of Facility "A") of \$28,000,000 (known as "Facility B").
- 9 Facility A is a pass through loan that represents WIL's share of a \$18,000,000 interest free loan from Crown Irrigation Investments Limited (**CIIL**) to TDC. It is repayable in four principal amounts that mirror the repayments by TDC to CIIL. Those repayments are as follows:

Repayment Amount	Repayment Date
\$2,200,500	16 December 2025
\$2,200,500	17 December 2030
\$2,200,500	18 December 2035
\$2,200,500	24 November 2040

- 10 The repayments can be met by drawdowns on Facility B which is a \$28,000,000 facility that provides for cash drawdowns of \$18,924,000 to fund cost overruns, with the balance to meet scheduled repayments in relation to Facility A.
- 11 WIL's obligations to TDC under the Second Ranking General Security Deed (Waimea Community Dam – Waimea Irrigators Limited) dated 12 December 2018 will be extended to secure the above lending.
- 12 The effect of these arrangements is that Shareholders will be responsible for WIL's share of the Cost Overrun through payment of an increased water charge. The initial water charge payable by Shareholders is expected to increase from \$650.00 (being a 2018 figure) to an estimated charge of \$964 (being the 2021 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.
- 13 Although WIL's share of the Project Cost Overrun 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 and the documents and obligations contemplated by the Term Sheet 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 Project Cost Overrun and funding. As noted above, a specific breakdown of how the Project Cost Overrun will be funded is set out in the Schedule to this Explanatory Note.

- 14 Despite the increase in Water Charges, WIL recommends that Shareholders approve the Resolution. This is because WIL believes that sharing the liability of the Cost Overrun in the manner described above to fund the Dam so that construction can be completed and the Dam can reach an operational state in a timely manner is, on balance, appropriate and desirable.
- 15 The alternative is for TDC to target rate payers in the Zone of Effect which, in the Board's view, will create a number of anomalies and inequities, particularly in the case of WIL's smaller shareholders.

Conclusion

- 16 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 Natasha Berkett in the first instance (natasha@waterforlife.nz / 0276 511 411).

Schedule – Funding Information

Project Funding at \$158.4M estimated Cost to Complete			
Cost overruns	\$53,673,696		
Cost overruns funded under Project Agreement	\$3,000,000		
Cost overruns to be financed	\$50,673,696		
TDC Allocation	51.1%		
WIL Allocation	48.9%		
	TDC	WIL	Total
Cost overruns allocated	\$25,894,259	\$24,779,437	\$50,673,696
Financed by:			
CIIL (interest free)	\$9,198,000	\$8,802,000	\$18,000,000
Interest only loan	\$2,394,000	\$15,977,437	\$18,371,437
30-year table mortgage	\$14,302,259		
Total	\$25,894,259	\$24,779,437	\$50,673,696
Financing sits in:			
WWL	\$11,592,000	\$24,779,437*	\$36,371,437
TDC	\$14,302,259		\$14,302,259
Total	\$25,894,259	\$24,779,437	\$50,673,696
*WWL (WIL share) financing to be split as follows:			
TDC	LGFA interest costs paid by TDC until 1 July 2027, and then revert to WIL		\$10,142,437
WIL	CIIL Borrowing (interest free), to be repaid in four instalments of \$2,200,500 each in 2025, 2030, 2035 and 2040.		\$8,802,000
	LGFA loan – interest paid by WIL from day 1		\$5,835,000
Total			\$24,779,437
Facility Summary Shareholders Advance			
'Irrigator Capacity' Facility A (CIIL)	\$8,802,000		
'Irrigator Capacity' Facility B (LGFA)	\$15,977,437		
Total 'Irrigator Capacity'	\$24,779,437		
Council Capacity Facility A (CIIL)	\$9,198,000		
Council Capacity Facility B (LGFA)	\$2,394,000		
Total Council Capacity	\$11,592,000		
Total 40-year shareholder advance debt in WWL	\$36,371,437		