

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY

SOUTH CANTERBURY

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OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

DIRECTORY

Nature of Business	Water Supply and Electricity Generation	
Registered Office	39 George Street PO Box 125 Timaru 7940	
Directors	Thomas Craig Lambie Antony Charles Howey Nicola Alice Orbell Hyslop Nigel James Gormack William Dermott O'Sullivan Alvin John Reid Edward Oral Sullivan Ross Sinclair Wells	
Share Capital	1000 Ordinary Shares (Fully Paid)	
Shareholders	SCFIS Holdings Limited	81.25% - 813 Ordinary Shares
	Levels Plain Holdings Limited	18.75% - 187 Ordinary Shares
Chairman	Thomas Craig Lambie	
Auditors	Mitchell Audit Theodosia Street Timaru 7910	
Accountants	HC Partners LP Chartered Accountants 39 George Street Timaru 7910	
Solicitors	Edward Sullivan RSM Law 17 Strathallan Street Timaru 7910	
	Goodman Tavendale Reid Law Oxford Terrace Christchurch 8140	
Bankers	ANZ National Bank Ltd	
Company Number	897370	
Date of Incorporation	06 March 1998	
Company Status	Registered	

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

ANNUAL REPORT

Your directors present their report on the financial statements for the year ended 30 June, 2011.

Directors

The following persons held office as directors at the date of this report:

Thomas Craig Lambie
Antony Charles Howey
Nicola Alice Orbell Hyslop
Nigel James Gormack
William Dermott O'Sullivan
Alvin John Reid
Edward Oral Sullivan
Ross Sinclair Wells

Principal Activities

The group's principal activities during the year was the coordination and supply of water for industrial and domestic consumption, environmental river flows, irrigation supply and electricity generation.

Results	2011	2010
Net Profit/(Loss) after income tax	\$ (1,688,284)	\$ -

The net loss after tax for the 2011 financial year was \$1,688,284 (2010 : \$Nil).

The results for the year and the state of the Company's affairs are considered satisfactory.

Dividends

No payment of any dividend for this year is recommended by the directors.

Directors' Benefits

No director of the company has received during the year, or has become entitled to receive a benefit (other than a benefit included in the directors' remuneration shown in the financial statements).

Directors Interests

Directors have declared interest in the following transactions with the group during the year:

- HC Partners LP of which Mr N J Gormack is a Director, for Accountancy and Secretarial Services.
- RSM Law (formerly Raymond Sullivan McGlashan) of which Mr E O Sullivan is a Director, for Legal Services.

Directors' Remuneration

Directors Remuneration of \$80,000 has been accrued for/paid during the year.

General

As per Section 211 (3) of the Companies Act 1993, the shareholders have unanimously agreed that the annual report need not comply with paragraphs (e) to (j) of Section 211 (1) of the Companies Act 1993.

Auditors

It is proposed that the Auditor, Mitchell Audit, continue in office in accordance with Section 200 of the Companies Act 1993. No other services, other than the auditing of the Financial Statements, were provided by Mitchell Audit during the year.

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

ANNUAL REPORT (continued)

Date of Authorisation

These accounts are authorised for issue by the Directors of the Company at the date shown below.

For and on behalf of the Board of Directors:

Tom C Lambie
Director

Tony C Howey
Director

Date

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

CHAIRMAN'S REPORT

Overview

- Good lake storage levels maintained throughout the season
- No irrigation restrictions were required
- Allegations of toxins below the lake were proved unfounded
- End of fixed price electricity contract in September significantly reduced second half revenue
- Agreement reached with Alpine Energy for long term reduction in transmission charges
- Significant staff changes
- Changes in regional water management

Opuha Dam and Lake Management

The improved flexibility we now have to manage our lake levels through our modified consents has enabled us to pre-empt inflow events and avoid spill. The lake filled rapidly from the start of the financial year and with good snow pack evident, we were able to generate hard in August and September and capture all the inflows and still build lake level. Heavy rain over the Christmas period resulted in a small amount of spill. The lake level remained above 388m (73% full) throughout the irrigation season which tapered off early with the favourable weather in the early part of the New Year. Full irrigation demand was able to be met throughout the season and no water restrictions were required.

The Opuha Environmental Release Advisory Group (OEFRAG) continues to play a very valuable role in the management of the lake levels and we appreciate the very constructive involvement of key groups such as Timaru District Council, ECan, Federated Farmers and Fish & Game in this forum.

In late May we were informed of the pending media release on allegations of toxins buried below Lake Opuha during construction of the dam. These allegations had potentially serious ramifications and we are extremely grateful to ECan for the strong leadership they demonstrated in managing this unfortunate affair. After extensive investigation and testing by ECan and their specialist consultants, it was pleasing to have confirmation that no contamination issue exists.

In March this year, Contact Energy signalled that they did not wish to extend the Operations and Maintenance Agreement with Opuha Water and set a September 30th 2011 exit date. We have very much appreciated Contact's very professional and diligent support for Opuha since late 2007 and it was with some regret that we accepted their notice. A search for a replacement operator was initiated to enable a smooth transition and handover and TrustPower were selected and took over operation and maintenance of the dam and power station on 1st October.

Finance

The main influence on our financial performance this year was the significant drop in electricity generation revenue. In September 2010 we came off a very favourable two year, fixed price contract and the subsequent monthly prices were dramatically below the previous contract price. Our electricity revenue over the final nine months of the financial year was 65% (\$1.2m) below the same period in the previous year despite only 9% less generation.

Our final position at the end of the year was well below our budget forecast.

The reduced revenue and our commitment to capital projects such as the Totara Valley Pond and Sutherlands development put some strain on our operating cashflow and, as a result, we failed to meet the bank's Debt Service Cover Ratio (DSCR). Despite this breach, our cash position was still strong because of reserves that had accumulated from previous years and the ANZ bank decided not to take any action on this basis. We value our good relationship with the ANZ bank and appreciate their willingness to work with us on these matters. We have made changes to our financing arrangement for capital expenditure and agreed a revised method of determining the DSCR with ANZ to improve our performance in this area.

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

CHAIRMAN'S REPORT (continued)

In response to the poor financial performance and with a continuing uncertainty over electricity revenue, the Board agreed that the water charges to irrigators should be increased by 10% for the 2011/12 year.

On a brighter note, I was extremely pleased that we were finally able to reach agreement with Alpine Energy with regards a revision of the transmission charges that were being passed through to Opuha. This settlement has seen reduced charges for the latter part of this financial period and, going forward, will see these charges eliminated from April 2012. In our previous financial year, these transmission charges had risen to over \$400k.

Staff and Operations

We were all deeply saddened by the passing of Snow Gardner in December 2010. Snow was an extremely dedicated and valuable key member of staff who had provided outstanding service to Opuha Water as Operations Manager and previously to Levels Plain Irrigation Company.

I would like to acknowledge our appreciation to William Scott who responded to a request of some urgency to step in and provide operational support at the end of 2010 and to Chris Emmerson for his continuing contribution to our operation.

This year saw a major milestone with Peter Scott's retirement from his role as Opuha's inaugural CEO. Peter has provided outstanding leadership and service since 2007 when the new company was established under full ownership by its shareholder irrigators. On behalf of the Board, I would like to thank and congratulate Peter for his dedication. Our new CEO, Tony McCormick, started in March 2011 and, after a period of transition with Peter, has quickly got on-board with his new role.

Projects

The major capital project for the company this year has been the construction of the Totara Valley Storage Pond and acquisition of the Sutherland's irrigation scheme that is supplied from the new pond. The Sutherland's scheme was supplied from temporary pumps for the season while the new pond was being constructed.

This new scheme is now substantially complete and operational for the new 2011/12 season and enables better utilisation of water from the Totara Valley scheme. The scheme access and water charges have been set to provide a return on the capital investment of nearly \$2 million by Opuha.

I am pleased to advise that the Board willingly accepted a suggestion from one of our irrigators that the new storage pond be named Gardner's Pond in recognition of Snow's contribution to our operation, including this project.

A major study into the hydrology of the Opuha catchment has been concluded and has provided some useful resource and information for management of the lake.

The modification of the downstream weir is the next major civil project. Increasing the capacity of the weir will enable improvements to our lake operation and we are hopeful that the modifications may enable some flushing capability to assist with river quality issues.

Water Management

Water management within Canterbury is undergoing a major review at a political level with the implementation and rollout of the Canterbury Water Management Strategy. At a local level, Opuha Water is well represented through the Zone Committee. Coincidentally, the Opihi River Regional Plan, which is a cornerstone planning document for Opuha Water's operation, is up for its 10 year review in 2012. Opuha Water has a key role to play in the future of water management within the region and must actively engage in these review and planning processes. It is clear that there will be on-farm implications for us all as these new management regimes take effect and I am confident that Opuha Water can maintain an effective leadership and coordination role in implementing these changes.

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

CHAIRMAN'S REPORT (continued)

Thank You

On behalf of the Board I wish to reiterate our thanks to our staff which under Tony now includes Christine Gardner and Steve Pagan with Chris Emmerson and William Scott. To Peter Scott for his service as CEO and to Roger Gould and his team at ECan, many thanks. Roger is now assisting new staff into his role and we look forward to maintaining the very successful relationship we have enjoyed under Roger.

To Chris Broughton and his colleagues at ANZ Bank, we appreciate the on-going support of the bank and your willingness to engage with us as we seek to improve and enhance our business.

To all our shareholders, I appreciate your cooperation and on-going feedback we receive as we continue to improve our support for your business through efficient and reliable supply of irrigation water.

Finally I would like to thank my fellow Board members for their valuable contribution and guidance which is greatly appreciated.

Tom Lambie
Chairman

December 4th 2011

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$	2010 \$
Continuing Operations			
Water Supply Revenue	1.2	798,479	-
Operation Levy Received		1,921,835	-
Less: Discounts Given		<u>-76,307</u>	<u>-</u>
		2,644,007	-
Electricity Sales		1,183,754	-
Water Abstraction & Additional Charges		<u>299,494</u>	<u>-</u>
		1,483,248	-
Other Income			
Rebates Received		277	-
Share Transfer Charges		3,150	-
Management Fees		92,000	-
Dividends Received		55,203	-
Interest Received		<u>31,562</u>	<u>-</u>
		182,191	-
Total Income		<u>4,309,447</u>	<u>-</u>
Less Expenses			
Direct Operating Expenses			
Electricity Use of System & Connection		403,714	-
Monitoring & Site Inspection		56,913	-
Water Measurement & Telemetry Management		60,341	-
Power Station Operations Management Fee		228,383	-
Electricity, Light & Heat		9,855	-
Inspection & Survey Costs		56,430	-
Laundry and Cleaning		2,579	-
Plant & Equipment Hire		776	-
Trees, Planting and Landscaping		1,365	-
Weed and Pest Control		2,579	-
Wages and Allowances		211,749	-
Repairs and Maintenance		175,735	-
Protective Clothing & Safety Equipment		1,643	-
Motor Vehicle Expenses		<u>48,018</u>	<u>-</u>
		1,260,080	-
Administration Expenses			
Accident Compensation Levies		3,081	-
Accountancy & Secretarial Services	14	152,108	-
Audit Fees	2	7,081	-
Bank Charges		1,744	-
Computer, Internet & Software Fees		2,743	-
Conferences, Seminars & Training		9,322	-
Consultancy Fees		56,207	-
CEO Management Salary		160,413	-
Directors Fees	17	80,000	-
Entertainment		6,239	-

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011 (continued)

	Notes	2011 \$	2010 \$
General Expenses		4,514	-
Legal Fees	14	24,128	-
Loan Application Fees	11	250	-
Ministry of Economic Development Levies		2,134	-
Recruitment Fees		25,861	-
Security		1,099	-
Stationery, Printing & Postages		8,296	-
Hydrology and Water Use Study (ASM)		73,662	-
Management and Strategic Projects		34,125	-
Subscriptions		5,800	-
Telephone and Tolls		19,202	-
Travel and Accommodation		2,510	-
Resource Consent Fees		7,592	-
		<u>688,111</u>	-
Standing Charges			
Insurances		253,438	-
<u>Interest:</u>			
ANZ National Bank Ltd (Term Loan)	11	2,148,413	-
Hunter Premium Funding		10,183	-
		<u>2,158,596</u>	-
Rates		31,252	-
Rent of Office & Lodge		1,575	-
		<u>2,444,861</u>	-
Loss on Sale of Fixed Assets		7,598	-
Donations		2,000	-
Depreciation			
Buildings		6,084	-
Plant and Equipment		5,904	-
Motor Vehicles		36,476	-
Office Equipment		6,096	-
Dam and Power Station		1,739,676	-
		<u>1,794,236</u>	-
TOTAL EXPENSES		<u>6,196,886</u>	-
Revaluation of Interest Rate Swaps	13	199,156	-
Net Profit (Loss) for the period		<u>(1,688,284)</u>	-
Current Income Tax	5	-	-
Deferred Income Tax	6	-	-
Profit/(Loss) from Continuing Operations		<u>(1,688,284)</u>	-

This Statement should be read in conjunction with the Notes to the Financial Statements and are subject to the Audit Report

OPUHA WATER LIMITEDIRRIGATION WATER SUPPLY
SOUTH CANTERBURY**STATEMENT OF MOVEMENTS IN EQUITY**

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$	2010 \$
RETAINED EARNINGS	23		
Opening Balance		-	-
Total Comprehensive Income in Income Statement		(1,688,284)	-
Recognition of Fair Value Swaps Prior Year	10	(2,585,994)	-
		<u>(4,274,278)</u>	<u>-</u>
Closing Balance		<u><u>(4,274,278)</u></u>	<u><u>-</u></u>
CONTRIBUTED EQUITY			
Opening Balance		-	-
Share Capital		1,000	-
		<u>1,000</u>	<u>-</u>
Closing Balance		<u><u>1,000</u></u>	<u><u>-</u></u>
STATEMENT OF CHANGES IN EQUITY	8		
Shareholders Equity at Beginning of Year		-	-
Total Comprehensive Income in Income Statement		(1,688,284)	-
Recognition of Fair Value Swaps Prior Year	10	(2,585,994)	-
Share Capital		1,000	-
		<u>(4,273,278)</u>	<u>-</u>
Shareholders Equity at end of Year		<u><u>(4,273,278)</u></u>	<u><u>-</u></u>

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OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

SHAREHOLDERS' CURRENT ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$	2010 \$
SCFIS HOLDINGS LIMITED			
	29, 30		
Opening Balance		-	-
Funds Contributed		4,152	-
Fixed Assets Transferred from Partnership		39,161,068	-
Investments Transferred from Partnership		150,719	-
ANZ Bank Funds Transferred from Partnership		1,351,152	-
Partnership Receivables Taken Over By OWL		16,781	-
		<u>40,683,872</u>	<u>-</u>
Less:			
Share Capital Paid		813	-
ANZ Term Loan Transferred from Partnership		21,937,500	-
Current Accounts Transferred from Partnership		63,298	-
Preliminary Expenses Transferred from Partnership		9,582	-
Partnership Payables Taken Over By OWL		130,928	-
		<u>22,142,121</u>	<u>-</u>
Closing Balance		<u>18,541,751</u>	<u>-</u>
LEVELS PLAIN HOLDINGS LIMITED			
	29, 30		
Opening Balance		-	-
Fixed Assets Transferred from Partnership		9,037,170	-
Investments Transferred from Partnership		34,781	-
ANZ Bank Funds Transferred from Partnership		311,804	-
Partnership Receivables Taken Over By OWL		3,873	-
		<u>9,387,628</u>	<u>-</u>
Less:			
Share Capital Paid		188	-
ANZ Term Loan Transferred from Partnership		5,062,500	-
Current Accounts Transferred from Partnership		14,607	-
Preliminary Expenses Transferred from Partnership		2,211	-
Partnership Payables Taken Over By OWL		32,035	-
		<u>5,111,541</u>	<u>-</u>
Closing Balance		<u>4,276,087</u>	<u>-</u>
Total amounts owing to Shareholders		<u><u>22,817,838</u></u>	<u><u>-</u></u>

This Statement should be read in conjunction with the Notes to the Financial Statements and are subject to the Audit Report

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

SHAREHOLDERS' CURRENT ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$	2010 \$
SCFIS HOLDINGS LIMITED			
	29, 30		
Opening Balance		-	-
Funds Contributed		4,152	-
Fixed Assets Transferred from Partnership		39,161,068	-
Investments Transferred from Partnership		150,719	-
ANZ Bank Funds Transferred from Partnership		1,351,152	-
Partnership Receivables Taken Over By OWL		16,781	-
		<u>40,683,872</u>	<u>-</u>
Less:			
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Partnership Payables Taken Over By OWL		130,928	-
		<u>22,142,121</u>	<u>-</u>
Closing Balance		<u>18,541,751</u>	<u>-</u>
LEVELS PLAIN HOLDINGS LIMITED			
	29, 30		
Opening Balance		-	-
Fixed Assets Transferred from Partnership		9,037,170	-
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ANZ Bank Funds Transferred from Partnership		311,804	-
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Less:			
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Closing Balance		<u>4,276,087</u>	<u>-</u>
Total amounts owing to Shareholders		<u><u>22,817,838</u></u>	<u><u>-</u></u>

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OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

BALANCE SHEET

AS AT 30 JUNE 2011

	Notes	2011 \$	2010 \$
ASSETS			
CURRENT ASSETS			
Petty Cash - Opuha House		40	-
ANZ National Bank Ltd : Cheque Account		211,635	-
ANZ National Bank Ltd : Call Account		158,000	-
GST Receivable		19,721	-
Accounts Receivable	3	579,443	-
Prepayments	3	243,652	-
Term Deposit : ANZ National Bank Ltd	4	185,000	-
Total Current Assets		<u>1,397,491</u>	<u>-</u>
NON-CURRENT ASSETS			
Fixed Assets (as per schedule)	1.1, 9		
Land and Buildings		145,103	-
Plant and Equipment		38,274	-
Motor Vehicles		104,451	-
Office Equipment		22,112	-
Dam Non Mechanical		33,229,762	-
Dam Mechanical		783,820	-
Power Station Non Mechanical		5,602,789	-
Power Station Mechanical		6,589,614	-
Totara Valley Pond Development	25, 28	562,021	-
Sutherlands Pipeline Development	25, 28	490,717	-
Total Fixed Assets		<u>47,568,663</u>	<u>-</u>
Investments			
Shares : CRT Society Ltd	4	666	-
Total Investments		<u>666</u>	<u>-</u>
Total Non-Current Assets		<u>47,569,329</u>	<u>-</u>
TOTAL ASSETS		<u>48,966,820</u>	<u>-</u>

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

BALANCE SHEET

AS AT 30 JUNE 2011

	Notes	2011 \$	2010 \$
LIABILITIES			
CURRENT LIABILITIES			
ANZ Bank : Business Card (Mastercard)	12	638	-
Trading Account - CRT Society Ltd	12	2,849	-
Accounts Payable	12	463,825	-
Interest Payable on Term Loan	12	187,025	-
Fair Value of Interest Rate Swap		2,386,838	-
Loan : Hunter Premium Funding		281,821	-
Employee Leave Entitlements		13,256	-
		<u>3,336,252</u>	<u>-</u>
Provisions - Taxation			
Resident Withholding Tax	5	(7,248)	-
		<u>(7,248)</u>	<u>-</u>
Other			
Current Account : Kakahu Irrigation Ltd	15	81,120	-
Current Account : Levels Plain Irrigation Co Ltd	16	12,136	-
Term Loans : ANZ National Bank Ltd	10	27,000,000	-
		<u>27,093,256</u>	<u>-</u>
Total Current Liabilities		<u>30,422,260</u>	<u>-</u>
NON CURRENT LIABILITIES			
Shareholders' Current Accounts	29	22,817,838	-
Total Non Current Liabilities		<u>22,817,838</u>	<u>-</u>
TOTAL LIABILITIES		<u>53,240,098</u>	<u>-</u>
SHAREHOLDERS' EQUITY			
1000 Ordinary Shares	22	1,000	-
Retained Profits/(Losses)		(4,274,278)	-
Total Shareholders Equity (Deficit)		<u>(4,273,278)</u>	<u>-</u>
TOTAL FUNDS EMPLOYED		<u>48,966,820</u>	<u>-</u>

Signed for and on behalf of the Directors:

Tom C Lambie

Tony C Howey

Date

This Statement should be read in conjunction with the Notes to the Financial Statements and are subject to the Audit Report

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$	2010 \$
A CASHFLOWS FROM OPERATING ACTIVITIES:			
<u>Cash was provided from:</u>			
Interest Received		20,170	-
Dividends Received		55,203	-
Operating Income		3,853,512	-
		<u>3,928,885</u>	<u>-</u>
<u>Cash was applied to:</u>			
Expenses		2,212,426	-
Interest Paid		1,971,569	-
Goods and Services Tax		8,784	-
		<u>4,192,779</u>	<u>-</u>
Net Cash Inflow/(Outflow) from Operating Activities	27	<u>(263,894)</u>	<u>-</u>
B CASHFLOWS FROM INVESTING ACTIVITIES:			
<u>Cash was provided from:</u>		-	-
		<u>-</u>	<u>-</u>
<u>Cash was applied to:</u>			
Fixed Asset Purchases		1,023,702	-
		<u>1,023,702</u>	<u>-</u>
Net Cash Inflow/(Outflow) from Investing Activities		<u>(1,023,702)</u>	<u>-</u>
C CASHFLOWS FROM FINANCING ACTIVITIES:			
<u>Cash was provided from:</u>			
ANZ Bank : Term Deposit		185,000	-
Opuha Water Partnership		1,667,107	-
		<u>1,852,107</u>	<u>-</u>
<u>Cash was applied to:</u>			
ANZ Bank : Term Deposit		185,000	-
		<u>185,000</u>	<u>-</u>
Net Cash Inflow/(Outflow) from Financing Activities		<u>1,667,107</u>	<u>-</u>
Net Increase/(Decrease) in Cash Held			
Operating Activities (A)		(263,894)	-
Investing Activities (B)		(1,023,702)	-
Financing Activities (C)		1,667,107	-
Net Increase in Cash Held		<u>379,511</u>	<u>-</u>
Add Cash at Start of Year		-	-
BALANCE OF CASH AT END OF YEAR		<u><u>379,511</u></u>	<u><u>-</u></u>
<u>Cash Balances as at 30 June 2011</u>			
Petty Cash - Opuha House		40	-
ANZ National Bank Ltd - Cheque Account		221,471	-
ANZ National Bank Ltd - Call Account		158,000	-
		<u>379,511</u>	<u>-</u>

This Statement should be read in conjunction with the Notes to the Financial Statements and are subject to the Audit Report

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY

SOUTH CANTERBURY

SUMMARISED SCHEDULE OF FIXED ASSETS

FOR THE 12 MONTHS ENDING 30 JUNE 2011

	Initial Cost	Accumulated Depreciation	Opening WDV 1/07/2010	Additions	Disposals	Profit (Loss) on Sale	Depreciation	Closing WDV 30/06/2011
Land and Buildings	-	-	-	151,187	-	-	6,084	145,103
Plant and Equipment	-	-	-	44,178	-	-	5,904	38,274
Motor Vehicles	-	-	-	157,541	(11,111)	(5,503)	36,476	104,451
Office Equipment	-	-	-	28,208	-	-	6,096	22,112
Dam Non Mechanical	-	-	-	34,391,681	-	-	1,161,919	33,229,762
Dam Mechanical	-	-	-	819,305	-	(2,095)	33,390	783,820
Power Station Non Mechanical	-	-	-	5,836,254	-	-	233,465	5,602,789
Power Station Mechanical	-	-	-	6,900,516	-	-	310,902	6,589,614
Totara Valley Pond Development	-	-	-	562,021	-	-	-	562,021
Sutherlands Pipeline Development	-	-	-	538,092	(47,375)	-	-	490,717
TOTAL ASSETS	\$0	\$0	\$0	\$49,428,983	(\$58,486)	(\$7,598)	\$1,794,236	\$47,568,663

This Statement should be read in conjunction with the Notes to the Financial Statements and are subject to the Audit Report

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

The following notes should be read in conjunction with the attached Financial Statements:

1 STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Opuha Water Limited is domiciled in New Zealand. The company's principal activities are the coordination and supply of water for industrial and domestic consumption, environmental river flows, irrigation supply and electricity generation.

On 1st July 2010, Opuha Water Limited acquired the entire assets of Opuha Water Partnership. The irrigation scheme is 100% owned by farming members through its shareholders SCFIS Holdings Ltd and Levels Plain Holdings Ltd.

Opuha Water Limited ("the company") is a closely held limited liability company incorporated in New Zealand and registered under the Companies Act 1993. The company is not an issuer. As this is the first year of trading under Opuha Water Limited, Directors have decided to adopt NZ IFRS for the purposes of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

Measurement Base

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP) in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the company, with the exception of certain items for which specific accounting policies are identified.

- Dam and Power Station which has been revalued to include replacement values for insurance purposes, and;
- Land and Buildings which has had a revaluation to Government Valuation at June 2010.

Judgement and Estimation Uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of judgement in applying accounting policies that have the most significant affect on the amount recognised in the financial statements are described in the following notes:

- Note 1.1 (b): Property, Plant and Equipment

Statement of Compliance

The Financial Statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial standards, as appropriate for profit-oriented entities.

These financial statements were approved by the Board of Directors on 9th December 2011.

Presentation Currency

The information is presented in New Zealand dollars (\$NZD) and rounded to the nearest dollar.

Going Concern

The financial statements have been prepared using the going concern assumption. The Company is dependant on the continuing support of its shareholders and financiers.

The following areas give uncertainty as to the adoption of the going concern assumption:

- The banking interest cover ratio covenant at 30th June 2011 was 1.05%. The actual loan covenant at year end was 0.55 : 1.05, which is above the required banking ratio and therefore a breach of the covenant. ANZ Bank could demand full repayment of the loans at any time but have indicated that no action will be taken at this time.

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FOR THE YEAR ENDED 30 JUNE 2011

The above issues create a material uncertainty as to the validity of the going concern assumption.

If the Company was required to repay the bank facility as a result of the breach, or the cash flow issues result in the company not being able to pay debts as and when they become due and payable, adjustments would have to be made to reflect the situation that assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts which could slightly differ significantly from the amounts at which they are currently recorded in the Balance Sheet.

While these above issues could all have an impact, there is no certainty that any of them may occur. The financiers have indicated that no action will be taken at this time on the covenant breach.

Directors and management are confident that they will be able to continue working under the going concern assumption.

Standards Applied for the First Time

No Standards or Interpretations that are were effective for the first time in this year's financial statements have had a material impact on the measurement or disclosure contained within these financial statements.

Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of financial performance and the financial position have been applied.

1.1 Property, Plant & Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The assets residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) - net' in the Statement of Comprehensive Income.

a) Subsequent Costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense as incurred.

b) Depreciation

Property, Plant and Equipment are recorded at cost less depreciation provided to date. Depreciation is charged using the diminishing balance method and straight line method. Depreciation is charged to the Statement of Comprehensive Income. Land is not depreciated. The rates associated with certain types of assets are:

Buildings	3%
Plant and Equipment	16%
Motor Vehicles	30%
Office Equipment	50%
Dam & Power Station	4%
Totara Valley & Sutherlands Development	4%

At balance date, the Totara Valley Storage Pond and Sutherlands Pipeline developments were uncompleted. Depreciation has been applied from 1st July 2011. No depreciation charge has been recognised in these financial statements.

OPUHA WATER LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1.2 Revenue

Revenue is recognised on an accruals basis.

Interest revenue is recognised on an accruals bases using the effective interest method.

1.3 Expenses

Expenses are recognised when it is probable that any future economic benefit associated with the item will flow to or from the company, and, when the item has a cost or value that can be measured reliably.

Expenses have been classified using the nature method.

1.4 Borrowing Costs

Borrowings are recognised initially at the transaction price (that is, the present valued of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs in the Statement of Comprehensive Income.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs are expensed in the period in which they are incurred. They are not capitalised as the assets are revalued on an annual basis and as such the cost benefit of capitalising borrowing costs is not beneficial as it has no net effect to the Statement of Comprehensive Income.

1.5 Research and Development Costs

Research expenditure is recognised in the Statement of Comprehensive Income in the period in which it is incurred. Development costs are deferred where future benefits are expected to exceed those costs.

1.6 Income Tax

The income tax expense recognised for the year includes both the current year's provision and the income tax effects of timing differences calculated using the taxes payable method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements as per NZ IAS 12.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from tax losses, is only recognised if there is a virtual certainty of realisation.

Deferred income tax is provided for using tax rates expected to apply in the period of settlement, based on tax rates enacted or substantially enacted at balance date.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

1.7 Goods and Services Tax (GST)

The financial statements are prepared on a GST exclusive basis except where the expenditure incurring the GST charge is one in respect of which a claim for recovery of the GST is not allowed by the Inland Revenue.

In these cases and in respect of Accounts Receivable and Accounts Payable, the amounts include GST.

1.8 Trade Receivables

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Bad debts are written off as incurred.

OPUHA WATER LIMITED

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FOR THE YEAR ENDED 30 JUNE 2011

1.9 Trade and Other Payables

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method. Trade payables are stated at the full amount required to satisfy the legal obligations to the supplier. Due to their short term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition, due to their short term nature their carrying value is assumed to approximate their fair value.

1.10 Contingencies and Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

If the effect is material, provisions are determined by discounting future cash flows. Where discounting is used, the increase in the provision for the passage of time is recognised as a finance cost.

1.11 Impairment

Impairment – Non-Financial Assets

Assets other than investment properties and deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Income unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Any reversal of the impairment loss is recognised as income immediately unless the asset is carried at fair value in which case it would be treated as a revaluation increase.

Impairment – Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the Statement of Comprehensive Income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. This is recognised in the Statement of Comprehensive Income.

1.12 Financial Instruments

Financial instruments are recognised in the Balance Sheet when the company becomes partner to a financial contract. They include bank funds, bank overdrafts, receivables, payables, investments in and term borrowings. In addition, the company is a party to financial instruments to meet its financing needs.

Financial assets and financial liabilities are recognised in the Balance Sheet when the company becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the company's obligations specified in the contract expire, are discharged or are cancelled. The estimated fair values of the company's financial instruments are considered to be materially the same as their carrying amounts as disclosed in the Balance Sheet.

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
SOUTH CANTERBURY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1.13 Interest Bearing Liabilities and Borrowing

Interest bearing borrowings are initially recognised at fair value net of attributable transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using interest method which allocates the cost through the expected life of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction, or production of assets that necessarily take a long time to build and/or prepare for use form part of the cost of that asset.

Other borrowing costs are recognised as an expense in the Statement of Comprehensive Income in the period they are incurred.

1.14 Interest Rate Swaps

The Company is exposed to changes in interest rates. Interest rate swaps mitigate this risk.

Interest rate swaps are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured to their fair value at each reporting date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The fair value of interest rate swaps is based on valuations prepared by the counterparty, based on prevailing interest rates.

The effective portion of changes in the fair value of derivatives that are designated and qualify as effective hedges is recognised in equity in the hedging reserve. Any gain or loss relating to the ineffective portion is recognised in the Statement of Comprehensive Income.

The net differential paid or received on interest rate swaps is recognised as a component of interest expense or interest revenue over the period of the Agreement.

1.15 Employee Entitlements

Liabilities for annual leave are accrued and recognised in the Balance Sheet. Annual leave is recorded at the amount expected to be paid for the entitlement earned.

1.16 Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, demand deposits and other short-term high liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

1.17 Investments

Investments have been recorded at cost.

1.18 Cash Flows

Definitions of the terms used in the Statement of Cash Flows:

"Cash" includes coins and notes, deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts used as part of its day to day cash management.

"Operating Activities" are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

"Investing Activities" are those activities relating to the acquisition and disposal of property, plant and equipment and any other non-current assets.

"Financing Activities" are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity capital.

The Statement of Cash Flows has been prepared on a GST exclusive basis using the direct approach modified by netting certain items if required to give more meaningful disclosure.

1.19 Change in Accounting Policies

First period policies have been adopted. There have been no changes in accounting policies during the current period.

OPUHA WATER LIMITED

IRRIGATION WATER SUPPLY
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1.20 Comparative Figures

Where applicable, certain comparatives are re-stated to comply with the accounting presentation adopted for the current year.

1.21 Derivatives and Other Financial Instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value, plus for instruments not at fair value through profit or loss any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are recognised as described below.

A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset.

The company uses derivative financial instruments (interest rate swaps) to economically hedge its exposure to interest rate risks arising from borrowings. The interest rate swaps are recognised at fair value and the difference recognised in the Statement of Comprehensive Income as a financial asset or liability. This fair value adjustment will occur for the period of the interest rate swap and is unrealised. The company does not undertake speculative trading transactions or hold derivative financial instruments for trading purposes.

1.22 Finance Expenses

Finance expenses comprise interest expense on borrowings that are recognised in the Statement of Comprehensive Income. All borrowing costs are recognised in the Statement of Comprehensive Income using the effective interest method.

2 AUDITORS REMUNERATION

As shown on page 4 of the accounts, \$7,081 (2010 : \$Nil), excluding GST, was paid to Mitchell Audit during the year. This transaction related to Opuha Water Partnership for 2010 year audit services only, with no other services being provided. Of this amount paid, \$600 (2010 : \$Nil) related to audit services for SCFIS Holdings Ltd.

3 RECEIVABLES AND PREPAYMENTS

	2011	2010
	\$	\$
Accounts Receivable - Current	579,443	-
Prepayments - Current	243,653	-
	<u>\$823,096</u>	<u>\$0</u>

Accounts Receivable are shown net of impairment losses amounting to \$579,443 (2010 : \$Nil) recognised in the current year. Accounts Receivable relating to related party transactions were \$25,560 (2010 : \$Nil).

4 INVESTMENTS

	2011	2010
	\$	\$
Shares : CRT Society Ltd	666	-
	<u>\$666</u>	<u>\$0</u>

OPUHA WATER LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

5 TAXATION

	2011	2010
	\$	\$
4 (1) Statement of Comprehensive Income Tax Expense		
Profit (Loss) before Income Tax	(1,688,284)	-
<u>Add Back Non-Taxable Adjustments</u>		
Revaluation of Interest Rate Swaps	(199,156)	-
Difference in Tax Depreciation & Accounting Depreciation	871,460	-
Non-Deductible Entertainment Expenses	3,337	-
Non-Deductible Legal Fees	5,157	-
Net Effect of Imputation Credits on Dividends	23,658	-
Taxable Income	<u>(983,827)</u>	<u>-</u>
Income Tax on Taxable Income	-	-
Current Income Tax Expense	<u>\$0</u>	<u>\$0</u>
4 (1) Balance Sheet Income Tax Liability		
Tax on Taxable Income	-	-
Less Withholding Tax	(7,248)	-
Plus Tax Refunds Received	-	-
Terminal Tax Payable (Receivable)	<u>(\$7,248)</u>	<u>\$0</u>

The company has losses to carry forward to the 2012 tax year of \$1,062,689 (2010: \$Nil).

6 DEFERRED TAX LIABILITIES

	2011	2010
	\$	\$
<i>Movement in temporary differences during the year</i>		
Opening Balance	-	-
Temporary Difference re Interest Rate Swap	668,315	-
Income Tax Losses Carried Forward	297,553	-
Temporary Difference re Depreciation & Revaluation	(276,881)	-
Deferred Tax Asset Not Recognised	(688,987)	-
Deferred Income Tax Asset / (Liability)	<u>\$0</u>	<u>\$0</u>

The deferred tax calculation for the current year has been calculated using the Balance Sheet method under NZ IAS 12 and the results are tabled above. The deferred tax asset balance of \$688,987 (2010: \$Nil) has not been recognised in the balance sheet as the directors believe it is not probable that there will be sufficient taxable profits in the future to utilise the deferred tax asset.

7 IMPUTATION CREDIT ACCOUNT

	2011	2010
	\$	\$
Opening Balance	-	-
Plus Resident Withholding Tax Paid	7,248	-
Plus Imputation Credits Received on Dividends	23,658	-
	<u>30,906</u>	<u>0</u>
Plus Terminal Tax / (Refund)	(7,248)	-
Plus Provisional Tax Paid	-	-
Closing Balance available to Shareholders	<u>\$23,658</u>	<u>\$0</u>

OPUHA WATER LIMITED

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FOR THE YEAR ENDED 30 JUNE 2011

8	TOTAL EQUITY	2011	2010
		\$	\$
	Share Capital	1,000	-
	Retained Earnings	<u>(4,274,278)</u>	-
	Total Equity	<u>(\$4,273,278)</u>	<u>\$0</u>

The shares issued to farmers within the scheme who have contracts to receive water covering 16,000 hectares was completed in 1999. Each farmer received one (1) share per hectare. The farmers hold shares within Opuha Water Limited through their respective shareholders SCFIS Holdings Ltd and Levels Plain Holdings Ltd. The shares have no par value.

The shareholding in the Company is limited to farmers residing and or carrying on the business of farming within the scheme area. Each shareholder also agrees to abide by the Constitution of the Company and the individual water supply deeds through their individual irrigation schemes. Each shareholder has the right to be represented at meetings of the Company through their respective irrigation scheme. Each shareholder shall hold up to one paid share for one hectare of irrigatable land held within the scheme area. No shares can be transferred without first the approval of the Board.

Subject to Board approval, shareholders are able to sell their shares, typically through land sale or a tender process to either existing shareholders not fully contracted or new shareholders within the scheme area. The Company facilitates this process.

9	PROPERTY, PLANT & EQUIPMENT	Opening Book Value	Movement	Closing Book Value
		\$	\$	\$
	Opening Carrying Value	-	-	-
	Additions/(Disposals)	-	49,362,899	49,362,899
	Depreciation	-	(1,794,236)	(1,794,236)
	Revaluation Gains/(Losses)	-	-	-
	Closing Carrying Value	<u>\$0</u>	<u>\$47,568,663</u>	<u>\$47,568,663</u>

All property of the company is subject to a General Security Agreement in favour of the ANZ National Bank Ltd.

Basis Of Valuation:

The Dam and Power Station was re-valued in June 2010 under Opuha Water Partnership financial statements. Tonkin & Taylor completed the valuation which was based on capital cost replacement for insurance purposes and was valued at \$47.9 million (excl GST). The revaluation represented an increase of approximately 3.8% from the 2007 estimate which was also recorded under Opuha Water Partnership.

A 20% contingency was recommended over this base price to allow for reconstruction uncertainties, giving a contingency inclusive estimate of \$57.5 million (excl GST).

The Dam and Power Station are re-valued when required for insurance purposes.

The valuation was prepared by Tim Morris, Senior Civil Engineer and Pieter Vanderpoel, Civil Engineer. The valuation was authorised by Grant Lovell, Principal and Manager of the Christchurch office of Tonkin and Taylor Ltd. Mr Lovell has over 16 years' professional experience in civil engineering design and construction, primarily related to various aspects of water resource infrastructure. Tonkin and Taylor have given permission for this valuation to be used for financial reporting purposes.

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FOR THE YEAR ENDED 30 JUNE 2011

10 SECURED LIABILITIES

(i) Loan: ANZ National Bank Ltd - \$10,800,000

Terms of Repayment: Interest only maturing 7th January 2019

Subject to Interest Swap Rates - Swap Rate: 7.32% p.a. plus margin 1.65% p.a.

(ii) Loan: ANZ National Bank Ltd - \$10,800,000

Terms of Repayment: Interest only maturing 2nd December 2012

Subject to Interest Swap Rates - Swap Rate: 5.31% p.a. plus margin 1.65% p.a.

(iii) Loan: ANZ National Bank Ltd - \$5,400,000

Terms of Repayment: Interest only maturing 6th January 2014

Subject to Interest Swap Rates - Swap Rate: 7.70% p.a. plus margin 1.65% p.a.

Of the above loan, \$1,000,000 has been placed on a fixed interest rate contract of 4.32%p.a. plus 1.65%p.a. margin which will see this not covered under the swap rate contract for 12 months.

The loans are repayable upon demand. The ANZ National Bank Ltd has indicated that loan (ii) will be rolled through to the maturity date 2nd December 2012 after which another term of seven years has been offered to 2nd April 2019. The loan will remain subject to Interest Rate Swaps of 7.26% p.a. plus 1.65%p.a. margin.

Security:

- i) A Cross Guarantee and Indemnity between Opuha Water Limited, South Canterbury Farmers Society Limited and Levels Plain Irrigation Co Limited.
- ii) General Security Agreement over all the assets and undertaking of Opuha Water Limited.
- iii) First Registered Mortgage over the property known as Opuha Dam.
The company's carrying amount of financial assets are pledged as collateral. Refer to the value of the Opuha Dam shown in the Balance Sheet.

Recognition of Fair Value Swaps Prior Year

On 1st July 2010 the ANZ Bank loan and swap liabilities were transferred over from Opuha Water Partnership. Under the Partnership entity the swap rate mark to market values were not required to be reported. Under IFRS Financial Reporting Standards, the fair values of the swaps are required to be reported therefore the opening swap value has been recognised in these financial statements as a prior period adjustment in the Statement of Movements in Equity.

Financial Covenants

The loan was in breach of an interest cover covenant at 30 June 2011, as the net revenue to be received in the next 12 months was required to be at least 1.05 (2010 : Nil) times the interest expense. The actual interest cover fell below this level during the year due to the reduced revenue received from electricity generation. However, the company has obtained an indication from the ANZ Bank that no action will be taken in regards to the breach at this time. Due to the breach in covenant, the term loan has been treated as a current liability.

A change in the calculation of financial covenants took place in September 2011 which now allows for the deduction of capital expenditure which has been funded by bank facility arrangements. Since the review in September 2011, the debt service cover ratio has remained to be a minimum of 1.05:1 and is calculated as:

$$\frac{\text{Net Cash from Operations less Net Capital Expenditure}^*}{\text{Debt Servicing Costs}}$$

* **Net capital expenditure** means, in relation to any period, any capital expenditure during that period is not funded by term debt (bank funding) or cash on deposit.

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Conditions of the debt service cover ratio:

- An undertaking from the Directors that when the water levy charges are set for shareholders the amount will be sufficient to cover debt servicing.
- The company will hedge a minimum of 80% of the interest rate on the loan for the loan term.
- No shareholder disbursements are to be made without the prior consent of the ANZ National Bank Ltd.

The company must provide the financial institution with compliance certificates within 60 days of the end of each half-year and financial year, in the form of an annexure, signed by an authorised representative certifying that the financial undertakings have not been breached at anytime during the period and specifying the relevant ratios and amounts in dollars as at the last day of the period. The compliance certificate must be provided with a copy of the most recent financial statements. The next test date for the Debt Service Cover Ratio is in December 2011.

11	NET FINANCE COSTS	2011	2010
		\$	\$
	Establishment Costs	250	-
	Interest Expense	2,158,596	-
	Net Finance Costs	<u>\$2,158,846</u>	<u>\$0</u>

12	TRADE AND OTHER PAYABLES	2011	2010
		\$	\$
	Payables & Accrued Expenses	467,312	-
	Interest Payable	187,025	-
		<u>\$654,337</u>	<u>\$0</u>

13 FINANCIAL RISK MANAGEMENT

a) Credit Risk

The company is exposed to credit risk from transactions with trade receivable and financial institutions in the normal course of business. ANZ National Bank Ltd, who is the counter party in respect to the cash and cash equivalents of Opuha Water Ltdd, currently hold a AA credit rating (issued by Standard and Poors). The maximum exposures to credit risk at balance date are the amounts set out in the Balance Sheet.

b) Credit Facilities

The company has no credit facilities.

c) Interest Rate Risk Management

It is the present intention of the Manager and the Nominee that the ratio between the bank debt raised and additional contributions will be the same as the ratio between the initial bank debt raised and the subscription monies.

To ensure the company's interest payments are reasonably predictable, the company has entered into interest rate swaps in which the company agrees to exchange, at specific intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

As the company holds interest rate swaps there is a risk that their economic value will fluctuate because of changes in the market interest rates. The notional value of the swap is disclosed in the summary of financial assets and liabilities below, and it is acknowledged that this risk is a by-product of the company's attempt to manage its cash flow interest rate risk.

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As at 30th June 2011, after taking into account the effect of interest rate swaps, 100% of the company's borrowings are fixed at effective interest rates on total borrowings of \$27,000,000, as disclosed in note 10. At balance date, the company had the following assets exposed to variable interest rate risk that are not designated as cash flow hedges :

	2011	2010
	\$	\$
Cash and Cash Equivalents	369,675	0
	<u>\$369,675</u>	<u>\$0</u>

ANZ Term Deposit

The company must hold a cash deposit with the ANZ National Bank Ltd equivalent to one month's interest therefore the funds are not available for general use and has not been included in cash equivalents above.

The following demonstrates the sensitivity to the Company profit and capital, resulting from a reasonably possible change in interest rates, with all other variables held constant. This is also on the basis of the cash being available for a full year, and the interest rate change is also relevant for a full year.

	2011	2010
	\$	\$
Comprehensive Income impact of interest rate movement (-50 basis points)	135,000	-
Comprehensive Income impact of interest rate movement (+50 basis points)	(135,000)	-
Company's Capital impact of interest rate movement (-50 basis points)	135,000	-
Company's Capital impact of interest rate movement (+50 basis points)	(135,000)	-

d) Currency Risk

The company has minimal currency risk given that all financial instruments are transacted in NZ dollars.

e) Fair Values

The estimated fair values of the company's financial instruments are considered to be materially the same as their carrying amounts as disclosed in the Balance Sheet.

f) Liquidity Risk

Liquidity risk is the risk that the company may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of monetary assets and liabilities. The Company manages this risk by forecasting future cash requirements.

The company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The table below reflects all contractually fixed pay-offs for settlement and repayments resulting from recognised financial liabilities. This table is based on all interest rate variables being held constant over the related period of time, and all the payments are undiscounted.

Year Ended 30th June 2011	2011	2011	2011
	\$	\$	\$
	Less than 1 year	1-5 years	Greater than 5 years
Trade Payables	467,311	-	-
Interest Payable	187,026	-	-
Interest Rate Swaps Payable	2,225,340	5,932,791	1,478,354
Borrowings	-	16,200,000	10,800,000
TOTAL	<u>\$2,879,677</u>	<u>\$22,132,791</u>	<u>\$12,278,354</u>

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Year Ended 30th June 2010	2010	2010	2010
	\$	\$	\$
	Less than	1-5 years	Greater than
	1 year		5 years
Trade Payables	-	-	-
Interest Payable	-	-	-
Interest Rate Swaps Payable	-	-	-
Borrowings	-	-	-
TOTAL	\$0	\$0	\$0

The interest payable above represents interest payable on the borrowings at the floating interest rate balance date, plus the bank's margin. While the interest rate swap (net) payable represents the interest payable on the borrowings, based on the interest rate differential between the floating rate and the swap rate, assuming no change in the floating rate and the swap rate from balance date.

The Board of Directors have frameworks in place to monitor the company's liquidity and to ensure the banking covenants are complied with.

g) Fair Values - Swaps

The scheme uses the following methods in estimating the fair value of its financial instruments.

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

The company's interest rate swaps are carried at fair value of \$2,386,838 (2010 : \$Nil).

This fair value is not determinable by reference to a quoted market. For financial instruments not quoted in active markets (Level 2) the company uses present value techniques, with a comparison to similar instruments for which market observable prices exist and other relevant models used by market participants, which includes a current swap rates on offer and also the current floating interest rate.

h) Capital Management

When managing capital, the Board of Directors objectives are to ensure the company continues as a going concern as well as to maintain optimal returns to the company. As the market is constantly changing, the Board may consider capital management initiatives, such as changing the level of distributions paid, or it can request further capital contributions from all shareholders to reduce debt levels or to provide funding for capital expenditure requirements.

Capital is monitored through the gearing ratio. The gearing ratio as at balance date is 56.8%.

14 RELATED PARTY TRANSACTIONS

The Directors do not consider that any one party had the ability, either directly or indirectly, to control or exercise significant influence, over the Company in making operating, investing and financing decisions.

- a) The company paid HC Partners LP, of which Mr N J Gormack is a Director, for Accountancy and Secretarial Services. The amount paid or accrued at balance date totals \$152,108 (excluding GST) and has been recorded in these financial statements. At balance date, \$8,081 (excluding GST) of this amount was still owing to HC Partners LP. Any outstanding balance is not secured and standard engagement terms apply being payment due 20th of month following the invoice date.

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- b) The company paid RSM Law of which Mr E O'Sullivan is a Director, for Legal Fees. The amount paid or accrued at balance date totals \$22,596 (excluding GST) and has been recorded in these financial statements. At balance date \$17,709 (excluding GST) of this amount was still owing to RSM Law for legal fees relating to general legal advisory services, preliminary expenses in relation to SCFIS and Levels amalgamation, changes to the constitution and water supply deeds. Any outstanding balance is not secured and standard engagement terms apply being payment due 20th of month following the invoice date.
- c) Levels Plain Irrigation Company Ltd is a shareholder of Opuha Water Limited.
- d) SCFIS Holdings Ltd is a shareholder of Opuha Water Limited.
- e) Kakahu Irrigation Ltd owns a percentage of South Canterbury Farmers Irrigation Society Ltd, who in turn is a shareholder of Opuha Water Limited.

15 KAKAHU IRRIGATION LIMITED

The current account shown in the Liabilities for \$81,120 (GST exclusive) relates to funds that are collected on behalf of Kakahu Irrigation Limited by Opuha Water Limited. All funds collected are then passed onto Kakahu Irrigation Ltd. The balance of \$81,120 relates to funds that were outstanding at 30th June 2011.

16 LEVELS PLAIN IRRIGATION LTD

The current account shown in the Liabilities for \$12,136 (GST exclusive) relates to funds that are collected on behalf of Levels Plain Irrigation Limited by Opuha Water Limited. All funds collected are then passed onto Levels Plain Irrigation Ltd. The balance of \$12,136 relates to funds that were outstanding at 30th June 2011.

17 DIRECTORS FEES

Remuneration to Directors remained consistent with levels paid in prior years in Opuha Water Partnership. The Board of Directors have indicated that the fees to be paid for the next financial year will remain the same.

	2011	2010
	\$	\$
Chairman	20,000	-
Independent Directors	20,000	-
Farmer Directors	40,000	-
	<u>\$80,000</u>	<u>\$0</u>

18 DIRECTORS IDEMNITY AND INSURANCE

The Company has insured all its Directors against liabilities to other parties that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

19 CONTINGENT LIABILITIES

As at balance date there were no contingent liabilities (2010 : \$Nil).

20 CONTINGENT ASSETS

There are no known contingent assets at balance date.

OPUHA WATER LIMITED

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FOR THE YEAR ENDED 30 JUNE 2011

21 BANK OVERDRAFT

The Company has an overdraft facility available of \$200,000 and is secured by securities currently provided by the Company in the favour of the ANZ National Bank Limited.

The interest rate at 30th June 2011 was 9.65% p.a. At balance date, no overdraft funds had been drawn.

22 AUTHORISED CAPITAL

1,000 authorised shares have been issued and fully paid. All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up. The shares have no par value.

23 RETAINED EARNINGS

	2011	2010
	\$	\$
Opening Balance at 1st July 2010	-	-
Total Comprehensive Income in Income Statement	(1,688,284)	-
Recognition of Fair Value Swaps Prior Year	(2,585,994)	-
Dividends Paid	-	-
Closing Retained Earnings 30th June 2011	<u><u>(\$4,274,278)</u></u>	<u><u>\$0</u></u>

24 DISCONTINUED ACTIVITIES

No activities were discontinued during the year.

25 CAPITAL COMMITMENTS

Sutherlands Irrigation Ltd

Opuha Water Partnership became involved in a project with Sutherlands Irrigation Ltd after initial planning and concept designs of a pipeline system took place in the 2010 year.

Opuha Water Ltd took on this liability from 1st July 2010 which involved a 26% contribution on the basis of interest that the proposed scheme provided an opportunity to capture and distribute excess water within the Opuha scheme and earn incremental income from the distribution of water. On completion of the scheme construction, it was agreed that Opuha Water Ltd would acquire full ownership of the scheme and irrigators would contribute to the capital cost of the scheme on the basis of their supplied capacity.

At balance date, Opuha Water Ltd had contributed \$490,717 to the construction of the pipeline scheme.

Full ownership of the Sutherlands pipeline scheme took place on 9th September 2011.

Opuha Water Ltd therefore took on all outstanding liabilities owing to creditors from this date.

At 30th September 2011 the cost totals \$1,117,000 and the purchase was funded through cash reserves and a flexible facility arranged with the ANZ National Bank Ltd. The scheme was commissioned in October 2011. At the time of reporting, three diesel units and other unsued construction items were returned to creditors for refunds totalling \$78k, therefore the final completion cost is expected at \$1,039,000.

Totara Valley Storage Pond

The construction of a storage pond at Totara Valley began in the 2010 year under Opuha Water Partnership. Opuha Water Ltd took on this project from 1st July 2010.

The initial project was initiated by irrigators who had a number of issues regarding reliability and supply and consent renewal risk that led them to seek an alternative supply arrangement.

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Opuha Water Ltd took over this project with the intention of becoming the owner of the pond and distributor of the additional water which could be harnessed within the scheme.

At balance date, \$562,021 had been paid towards the capital cost of the pond and was funded through cash reserves. Since balance date, \$72,781 has been paid by a flexible loan facility provided by the ANZ Bank.

The construction of the pond was completed in September 2011 at a cost of \$634,802 and commissioned in October 2011. The above cost does not include the balance of land purchase of \$159k which is expected to be due in November 2011 once the land title and easement has been issued. No other costs are expected.

26 JUDGEMENT AND ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

27 RECONCILIATION OF NET SURPLUS/(DEFICIT) WITH CASH FLOWS FROM OPERATING ACTIVITIES

	2011	2010
	\$	\$
Total Comprehensive Income/(Expenditure)	(1,688,284)	-
Plus/(Less) Non-Cash Items		
Depreciation	1,794,236	-
Revaluation of Interest Rate Swaps	(199,156)	-
Loss on Sale of Fixed Assets	7,598	-
Opuha Water Partnership	(103,098)	-
Unpresented Operating Expenses	9,836	-
	<u>1,509,416</u>	-
Plus/(Less) Movements in Working Capital		
(Increase)/Decrease in Accounts Receivable	(579,444)	-
(Increase)/Decrease in Prepayments	(243,652)	-
Increase/(Decrease) in Resident Withholding Tax	(7,248)	-
Increase/(Decrease) in Accounts Payable & Trading Accounts	466,674	-
Increase/(Decrease) in ANZ Business Mastercard	638	-
Increase/(Decrease) in Interest Payable	187,026	-
Increase/(Decrease) in Employee Leave Entitlements	13,256	-
Increase/(Decrease) in Loan : Hunter Premium Funding	281,821	-
Increase/(Decrease) in GST Account	(19,721)	-
	<u>99,350</u>	-
Plus/(Less) Financing Activities		
Current Account : Kakahu Irrigation Ltd	(20,056)	-
Current Account : Levels Plain Irrigation Ltd	(2,495)	-
	<u>(22,551)</u>	-
Plus/(Less) Investing Activities		
Fixed Assets	(161,825)	-
Net Cash Inflow/(Outflow) from Operating Activities	<u><u>-\$263,894</u></u>	<u><u>\$0</u></u>

OPUHA WATER LIMITED

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28 SIGNIFICANT EVENTS AFTER BALANCE DATE

Sutherlands Pipe Purchase

The purchase of the Sutherlands pipeline scheme was completed on 12th September 2011 following the establishment of a \$2m debt facility with the ANZ National Bank Ltd. Refer to note 23 "Capital Commitments".

Totara Valley Storage Pond

The Totara Valley Storage Pond was completed in September 2011. The total costs involved with this project at 30th September 2011 totalled \$1,197,000, with \$159k remaining outstanding for the land purchase once the title and easement has been issued. Refer to note "Capital Commitments".

Loan Drawdown - Flexi Facility

In September 2011, the company established an additional \$2m debt facility with the ANZ National Bank Ltd for the primary purpose of financing the company's major capital development projects. At 30th September, \$950,000 had been drawdown to finance the remaining costs of the Totara Valley Storage Pond and Sutherlands Pipeline developments.

Management Contract

The Dam and Power Station management contract expired with Contact Energy Ltd on 30th September 2011. TrustPower took over the operation and management of the Dam from 1st October 2011 on a five year contract.

Energy Contract

The fixed energy contract with Contact Energy Ltd expired on 30th September 2010 at which time the company rolled onto an interim contract with Contact Energy while retailer options were sourced. On 1st May 2011, Simply Energy, took over the energy purchase on a month-by-month contract. A new energy contract was established with TrustPower and they commenced operating the power station on 1st November 2011 on a two plus one year contract.

29 SHAREHOLDERS' CURRENT ACCOUNTS

The shareholder current accounts relating to SCFIS Holdings Ltd and Levels Plain Holdings Ltd have been recorded as a non-current liability in the balance sheet. In future years, when the amalgamation of SCFIS and Levels Plain Irrigation takes place, the shareholder current account balances will be transferred to equity. Directors are not seeking repayment of the shareholders' current accounts in the foreseeable future.

30 OPUHA WATER PARTNERSHIP

From 1st July 2010, Opuha Water Limited took over the operations of Opuha Water Partnership which effectively ceased trading on 30th June 2010. SCFIS Holdings Ltd and Levels Plain Holdings Ltd effective share in the partnership of 81.25% and 18.75% respectively have been treated on the same proportional basis as their shareholding in Opuha Water Limited.

Opuha Water Limited took over all outstanding accounts receivables and accounts payables still owing from when Opuha Water Partnership ceased trading.

The following assets and liabilities recorded in the balance sheet of Opuha Water Partnership in the 2010 financial year ending 30th June 2010 were transferred at net realisable value to Opuha Water Limited on 1st July 2010 and treated as funds introduced from the shareholders of the company, who are in turn partner's of Opuha Water Partnership, based on their shareholding (SCFIS Holdings Ltd 81.25%, Levels Plain Holdings Ltd 18.75%).

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

ASSETS

Fixed Assets	48,198,237	
Investments	185,500	
ANZ Cash Funds	1,662,956	
Accounts Receivable	20,654	
	<u>20,654</u>	<u>50,067,347</u>

LIABILITIES

ANZ Term Loan	27,000,000	
KIL & LPIC Current Accounts	77,905	
Preliminary Expenses	11,793	
Accounts Payable	162,963	
	<u>162,963</u>	<u>27,252,661</u>
Net Assets transferred from Opuha Water Partnership		<u><u>\$22,814,686</u></u>

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Opuha Water Limited

Report on the Financial Statements

We have audited the financial statements on pages 7 to 31 which comprise the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Opinion

In our opinion, the financial statements on pages 7 to 31

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Opuha Water Limited as at 30 June 2011, and the results of its operations and cash flows for the year then ended.

Emphasis of Matter

- We draw attention to the value of the Opuha Dam assets. The dam assets were transferred from Opuha Water Partnership at cost based on a capital cost valuation for insurance purposes as detailed in note 10. Under IFRS this valuation would not comply with NZ IAS 16 which requires an independent fair valuation which may result in a materially different value to that shown in the financial statements.

- We draw attention to the Going Concern accounting policy on page 15 of the financial statements which details the banking covenant breach and that the bank could demand repayment at any time and is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by the Company as far as appears from our examination of those records.

.....
mitchell audit

12 December 2011
P O Box 40, Timaru