

Central Plains Water Limited

Annual Report

For the year ended 30 June 2010

Central Plains Water Limited

Annual Report For the year ended 30 June 2010

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Central Plains Water Limited

Business Directory As at 30 June 2010

| | |
|--|--|
| <i>Incorporated:</i> | 23 May 2003 |
| <i>Company Number:</i> | 1304001 |
| <i>IRD Number:</i> | 085-693-689 |
| <i>Nature of Business:</i> | The establishment of a community irrigation scheme |
| <i>Registered Office:</i> | Level 4 32 Oxford Terrace Christchurch |
| <i>Directors:</i> | D J Catherwood J W Donkers D G Marsh (resigned as a P G Morrison W J Palmer G K Stevenson |
| <i>Bankers:</i> | Rabobank Level 12 The Terrace Wellington |
| <i>Solicitors:</i> | Buddle Findlay Clarendon Tower 78 Worcester Street Christchurch |
| <i>Auditors:</i> | KPMG Level 3 62 Worcester Boulevard Christchurch |
| <i>Accountants:</i> | Deloitte 32 Oxford Terrace Christchurch |
| <i>Wholly Owned Subsidiary:</i> | Te Pirita Irrigation Limited |

Central Plains Water Limited

Chairman's Review

For the year ended 30 June 2010

During the year under review, Central Plains Water Limited continued to make steady progress towards our objective of an affordable and environmentally sustainable irrigation scheme, serving the upper plains of Central Canterbury.

On 1 June 2010 Environment Canterbury commissioners announced their decision to award the Central Plains Water Trust consent to take and use water from the Waimakariri and Rakaia rivers.

While obtaining every one of the consents considered in our application was an encouraging step forward and the culmination of many years' arduous effort, the scheme must still cross considerable additional hurdles before water can be delivered to our shareholders.

Further testing of the rights that we have been granted, to take and use water, is scheduled through the Environment Court in 2011. While we face ten challenges in this phase of the process, it is pleasing that the balance of the over 2000 original submitters have accepted the decision of the commissioners.

We are working hard to address these challenges to the satisfaction of the submitters by mediation, and therefore avoid the time and expense of an Environment Court process.

However, in order to complete the procedure of confirming our resource consents, and to lay the groundwork necessary to construct the scheme, the company needs to raise additional funds from shareholders. These funds will meet day to day costs and enable resolution of the Environment Court process. To that end we are offering a rights issue that aims to raise approximately \$3 million.

If your directors have not already personally engaged you in discussion on this matter, you will hear from us very shortly.

In the year under review, for some of our shareholders we have accelerated progress towards the provision of water for irrigation. Working with subsidiaries of the company Te Piritā Irrigation Ltd and Sheffield Water, which are using surface water acquired by negotiation from other parties, we are endeavouring to construct small schemes that will subsequently be incorporated into the rest of the scheme once the main headrace is built.

At the national level, the news is also positive, with the government elevating water management as a national priority.

In our annual report for the 2008/09 year we advised of the removal of the storage component from the scheme proposals on the recommendation of the Environment Canterbury commissioners, who suggested they were unlikely to grant resource consent to this aspect of the scheme. In its present consented form, the scheme would therefore operate as a run of river supply only. However, your directors are working hard to progress alternative water storage options and therefore provide security and reliability of supply consistent with our original vision. These alternatives include storage of water on farm, which we understand some shareholders are already developing; reaching agreements with prior consent holders of Band 2 and 3 consents on the Rakaia River; water sharing arrangements with Barrhill Chertsey Irrigation Limited for temporary use of Band 4 Rakaia River; and arrangements with TrustPower Limited to store water in Lake Coleridge. These are all positive initiatives that, along with the ongoing development of the Canterbury Strategic Water Management Study's proposals, provide hope that a storage component will be part of the scheme in the future.

Your company will continue to push for viable alternative storage options in whatever forum possible, ensuring the original goal of high reliability from a surface water scheme is eventually achieved.

Central Plains Water Limited

Chairman's Review

For the year ended 30 June 2010

Although it has taken longer to reach this point than we expected, and has expended considerably more resource than anticipated, in the form of our consents, the scheme now has a valuable asset. While we need additional capital from our shareholders to completely secure this asset and make it truly bankable, we now have some momentum and believe we can finally begin to repay your investment and reward your faith in the vision of a community surface water irrigation scheme for Canterbury's Central Plains.

Pat Morrison

Chair

Central Plains Water Limited

Central Plains Water Limited

Directors' Report For the year ended 30 June 2010

Nature of Business

The business of the company is the establishment of a community irrigation scheme. The company's business has not changed during the year under review.

Results

The Company sustained a loss for the year.

| | <i>This Year</i> | <i>Last Year</i> |
|---|----------------------------|---------------------|
| | \$ | \$ |
| Net Surplus (deficit) for the year | (2,218,232) | (2,819,852) |
| Retained earnings (accumulated losses) as at 1 July 2009 | (11,957,495) | (9,137,643) |
| Retained earnings (accumulated losses) as at 30 June 2010 | <u>(14,175,727)</u> | <u>(11,957,495)</u> |

State of Affairs

The board of directors are of the opinion that the state of affairs of the company is satisfactory.

Dividend

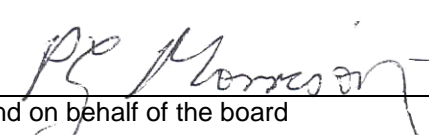
No dividend was paid during the year.

Financial Statements

The financial statements for the year ended 30 June 2010 are attached to this report.

Auditors

KPMG have indicated their willingness to continue in office in accordance with Section 200 of the Companies Act 1993.



For and on behalf of the board

P G Morrison

Chairman

22/9/10

Date

Central Plains Water Limited

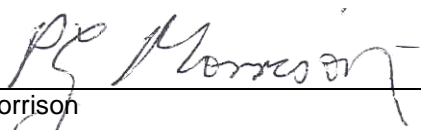
Approval of Annual Report For the year ended 30 June 2010

Authorisation For Issue

The directors authorise the issue of these financial statements for the year ended 30 June 2010.


Approval by Directors

The directors are pleased to present the financial statements Central Plains Water Limited for the year ended 30 June 2010.



P G Morrison
Chairman

22/9/10
Date



W J Palmer
Director

22/9/10
Date

Central Plains Water Limited

Statement of Comprehensive Income For the year ended 30 June 2010

| | | <i>Group & Parent</i> | <i>Parent</i> |
|-----------------------------------|----|-----------------------------|-----------------------------|
| | | This Year | Last Year |
| | | \$ | \$ |
| OTHER INCOME | | | |
| Interest received | | 5,288 | 5,091 |
| Contributions to expenses | | - | 144,444 |
| Water intake income | | <u>50,000</u> | <u>-</u> |
| TOTAL INCOME | | 55,288 | 149,535 |
| EXPENSES | | | |
| Directors' fees | 12 | 91,875 | 105,000 |
| Consenting costs | | 585,273 | 1,332,929 |
| Engineering and environmental | | 368,278 | 522,752 |
| Interest expense | | 668,584 | 483,428 |
| KPMG audit fees | | 8,200 | 8,200 |
| Other expenses | | 271,443 | 266,057 |
| Project management | | 243,612 | 179,360 |
| Relationship management | | <u>36,255</u> | <u>71,661</u> |
| TOTAL EXPENSES | | 2,273,520 | 2,969,387 |
| NET DEFICIT FOR THE YEAR | | (2,218,232) | (2,819,852) |
| Other Comprehensive Income | | - | - |
| TOTAL COMPREHENSIVE INCOME | | <u>\$(2,218,232)</u> | <u>\$(2,819,852)</u> |

Central Plains Water Limited

Statement of Changes in Equity For the year ended 30 June 2010

| | <i>Share Capital</i> | <i>Retained Earnings</i> | <i>Total</i> |
|---|----------------------|--------------------------|--------------------|
| | \$ | \$ | \$ |
| Balance at 1 July 2008 | 4,257,294 | (9,137,643) | (4,880,349) |
| Total comprehensive income for the year | - | (2,819,852) | (2,819,852) |
| Balance at 30 June 2009 | <u>4,257,294</u> | <u>(11,957,495)</u> | <u>(7,700,201)</u> |
| Issue of ordinary shares | 225,000 | - | 225,000 |
| Total comprehensive income for the year | - | (2,218,232) | (2,218,232) |
| Balance at 30 June 2010 | <u>4,482,294</u> | <u>(14,175,727)</u> | <u>(9,693,433)</u> |

Central Plains Water Limited

Statement of Financial Position As at 30 June 2010

| | | <i>Group & Parent</i> | <i>Parent</i> |
|---|---|---------------------------|---------------------|
| | | This Year | Last Year |
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash at bank | | 895,927 | 107,053 |
| Accounts receivable and other receivables | 2 | 89,267 | 25,084 |
| Tax refund due | 3 | 4,476 | 3,903 |
| | | <u>989,670</u> | <u>136,040</u> |
| NON CURRENT ASSETS | | | |
| Deposit on land | | 22,000 | - |
| | | <u>1,011,670</u> | <u>136,040</u> |
| CURRENT LIABILITIES | | | |
| Accounts payable and accruals | 5 | 954,139 | 853,859 |
| | | <u>954,139</u> | <u>853,859</u> |
| NON CURRENT LIABILITIES | | | |
| Term loans | 7 | 9,750,964 | 6,982,382 |
| | | <u>10,705,103</u> | <u>7,836,241</u> |
| TOTAL LIABILITIES | | <u>10,705,103</u> | <u>7,836,241</u> |
| NET ASSETS (LIABILITIES) | | <u>(9,693,433)</u> | <u>(7,700,201)</u> |
| EQUITY | | | |
| Share capital | 6 | 4,482,294 | 4,257,294 |
| Retained earnings (accumulated deficit) | | <u>(14,175,727)</u> | <u>(11,957,495)</u> |
| TOTAL EQUITY (DEFICIT) | | <u>(9,693,433)</u> | <u>(7,700,201)</u> |

Central Plains Water Limited

Statement of Cash Flows For the year ended 30 June 2010

| | Group & Parent | Parent |
|--|-----------------------------|--------------------|
| | This Year | Last Year |
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Cash was provided from: | | |
| Interest received | 4,714 | 6,217 |
| Contributions to expenses | - | 144,444 |
| | <u>4,714</u> | <u>150,661</u> |
| Cash was applied to: | | |
| Payments to suppliers | 1,518,840 | 2,151,687 |
| Net Cash Outflow from Operating Activities | 8 <u>(1,514,126)</u> | <u>(2,001,026)</u> |
| INVESTING ACTIVITIES | | |
| Cash was applied to: | | |
| Deposit on land | 22,000 | - |
| Net Cash Inflow (Outflow) from Investing Activities | <u>(22,000)</u> | <u>-</u> |
| FINANCING ACTIVITIES | | |
| Cash was provided from: | | |
| Loans received | 2,100,000 | 2,000,000 |
| Shares Issued | 225,000 | - |
| Net Cash Inflow from Financing Activities | <u>2,325,000</u> | <u>2,000,000</u> |
| Net Increase (Decrease) in Cash Held | 788,874 | (1,026) |
| Cash at beginning of year | 107,053 | 108,079 |
| Cash at end of year | <u>895,927</u> | <u>107,053</u> |
| Comprising: | | |
| Cash at bank | 895,927 | 107,053 |
| | <u>895,927</u> | <u>107,053</u> |

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The company and group are incorporated in New Zealand. The company and group is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The company is an issuer in terms of the Financial Reporting Act 1993.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements comply with NZ IFRS, which ensures they meet International Financial Reporting Standards ("IFRS"). The financial statements were authorised for issue by the directors on 22 September 2010.

Basis of Preparation

The financial statements have been prepared on the basis of historical cost.

Cost is based on the fair value of the consideration given in exchange for assets. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information presented in these financial statements for the year ended 30 June 2009.

The financial statements are prepared in NZD to the nearest dollar.

SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

Borrowing Costs

Borrowing costs are recognised as an expense in the period which they are incurred.

Cash and Cash Equivalents

Cash and cash equivalents comprise, cash in banks. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

The company has classified certain shares and options as financial assets at fair value through profit or loss. Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

Financial Instruments Issued by the Company

Debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Debt is classified as current unless the company has the unconditional right to defer settlement of the debt for at least 12 months after the end of the reporting period.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the borrowings, or where appropriate, a shorter period, to the net carrying amount of the borrowings.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

Going Concern

The company was formed to investigate, construct and operate a water management scheme for the Central Canterbury Plains. The company is undertaking this through a series of discrete projects, each of which is required to be funded prior to commencement. The company is currently in the process of attempting to obtain the necessary resource consents for the proposed water management scheme. As a result of discussions with the Commissioners, the company has made changes to the proposed scheme, and submitted these for the necessary resource consents.

If the resource consents are obtained by the company, it is possible there will be appeals against the consents. The company's ability to fund legal and other costs beyond the initial resource consent hearing is dependent on its ability to raise further funds from existing shareholders or other sources. The amount of such further funds required cannot be reliably estimated at this time. The financial statements have been prepared under the going concern assumption.

If the resource consents are not obtained, or are lost on appeal, or further funding beyond the resource consent hearing is not obtained, the company would cease to operate as a going concern.

If the company was unable to continue in operational existence for the foreseeable future, adjustments may have to be made to reflect the fact that assets and liabilities may need to be realised at amounts other than those at which they are currently recorded in the balance sheet, and the company may have to provide for further liabilities that may arise. In addition, the company would then, under agreements that it has, reclassify long-term liabilities as current liabilities and equity.

Goods and Services Tax

All balances are presented net of goods and services tax (GST), except for receivables and payables which are presented inclusive of GST.

Income Tax

Current Tax

Income tax for the period is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Income tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Until resource consents are obtained there are no probable future tax profits and therefore no deferred tax asset has been recognised.

Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

Interest income received is stated inclusive of withholding tax and recorded as earned.

Contributions to expenses have been recognised when it is probable the economic benefits will flow to the company.

Water intake income is recognised when it is probable the economic benefits will flow to the company.

Resource Consents

All costs associated with the application for resource consents are recognised as expenses in the period in which they are incurred.

Capital Management

The Board of Directors monitor the capital through monthly forecast projections, monitoring cash inflows and outflows a year in advance.

Standards and Interpretations in Issue Not Yet Adopted

At 30 June 2010, a number of standards and interpretations were in issue but not yet effective. Initial application of the following standards and interpretations is not expected to have any material impact to the financial statements:

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|---|--|
| NZ IFRS 2 - Amendments to Share Based Payments | 1 January 2010 | 30 June 2011 |
| NZ IFRS 9 - Financial Instruments | 1 January 2013 | 30 June 2014 |
| NZ IFRIC 14 - Amendments to Prepayments of a Minimum Funding Requirement | 1 January 2011 | 30 June 2012 |
| NZ IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 | 30 June 2011 |
| NZ IAS 24 - Amendments to Related Party Disclosures | 1 January 2011 | 30 June 2012 |
| NZ IAS 32 - Amendments to Financial Instruments: Presentation - Classification of Rights Issue | 1 February 2010 | 30 June 2011 |
| Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009 | 1 January 2010 | 30 June 2011 |
| Improvements to New Zealand Equivalents to International Financial Reporting Standards 2010 | | |
| - Improvements to IFRS 3 and IAS 27 | 1 July 2010 | 30 June 2011 |
| - Improvements to other standards | 1 January 2011 | 30 June 2012 |

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

| 2 | ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES | This Year | Last Year |
|----------|---|----------------------|------------------|
| | | \$ | \$ |
| | Accounts receivable | 56,250 | - |
| | GST receivable | 33,017 | 25,084 |
| | | <u>89,267</u> | <u>25,084</u> |
| | | | |
| 3 | INCOME TAX | This Year | Last Year |
| | | \$ | \$ |
| | (a) Reconciliation of Taxable Income (loss) | | |
| | Net surplus (deficit) for the year | (2,218,232) | (2,819,852) |
| | Income tax on Net Surplus before taxation at current rate of 30%. | (665,470) | (930,551) |
| | Taxation effect of permanent differences | | |
| | Non deductible expenses | 359,397 | 718,898 |
| | Non assessable contributions to expenses | - | (47,667) |
| | | <u>359,397</u> | <u>671,232</u> |
| | Unrecognised tax benefit | <u>306,072</u> | <u>259,319</u> |
| | Tax charge on taxable income | <u>-</u> | <u>-</u> |
| | | | |
| | (b) Current tax assets and liabilities | | |
| | Tax charge on taxable income | - | - |
| | Less tax paid | | |
| | Resident withholding tax paid | 573 | - |
| | Prior year tax refund due | <u>3,903</u> | <u>3,903</u> |
| | | <u>4,476</u> | <u>3,903</u> |
| | Tax Refund Due | <u>(4,476)</u> | <u>(3,903)</u> |
| | | | |
| | (c) Unrecognised tax losses | | |
| | Tax Losses | | |
| | Losses brought forward | 2,111,995 | 1,326,179 |
| | Plus | | |
| | Net tax deficit for the year | <u>1,020,242</u> | <u>785,816</u> |
| | Tax losses available to carry forward | <u>3,132,237</u> | <u>2,111,995</u> |

There is a possibility tax losses may be lost in the future before they are able to be used due to a possible change in shareholder continuity or change in business activity as the company has not yet commenced operations.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

| <i>(d) Imputation Credit Account</i> | <i>This Year</i> | <i>Parent</i> |
|--------------------------------------|------------------|---------------|
| | \$ | Last Year |
| Opening balance | - | - |
| Plus | | |
| Resident withholding tax paid | <u>573</u> | - |
| Closing balance | <u>573</u> | - |

This balance is a disclosure balance only and does not form part of the statement of financial position.

4 BUSINESS COMBINATIONS

The company has incorporated Te Pirita Irrigation Limited as a wholly owned subsidiary. The financial statements are not consolidated as there were no material transactions during the year. Te Pirita Irrigation Limited has been formed to construct, commission and operate the Te Pirita scheme of 6,000 hectares. If the construction of the company scheme headrace has not commenced by 2020 then all the shares in Te Pirita Irrigation Limited vest in the users of the Te Pirita scheme.

| 5 ACCOUNTS PAYABLE AND ACCRUALS | <i>This Year</i> | <i>Last Year</i> |
|--|-----------------------|------------------|
| | \$ | \$ |
| Central Plains Water Trust creditor | 440,385 | 129,542 |
| Other accruals | 222,711 | 190,646 |
| Trade creditors | <u>291,043</u> | <u>533,671</u> |
| | <u>954,139</u> | <u>853,859</u> |

The average credit period on purchases of services is 30 days. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Current arrangements with Central Plains Water Trust allow for payments to be on hold.

| 6 CAPITAL | <i>This Year</i> | <i>Last Year</i> |
|--|-------------------------|------------------|
| | \$ | \$ |
| Capital | | |
| 390,732 fully paid ordinary shares (2009: 372,732) | | |
| (a) | <u>4,482,294</u> | <u>4,257,294</u> |
| (a) Fully paid ordinary shares | Quantity | \$ |
| Balance as at 1 July 2008 | 372,732 | 4,257,294 |
| | <u>372,732</u> | <u>4,257,294</u> |
| Balance as at 30 June 2009 | 372,732 | 4,257,294 |
| Shares issued | <u>18,000</u> | <u>225,000</u> |
| Balance as at 30 June 2010 | <u>390,732</u> | <u>4,482,294</u> |

All shares share equally in dividends on surplus and on winding up. The ordinary shares hold equal voting rights.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

| 7 NON CURRENT LIABILITIES | <i>Principal</i> | <i>Accrued Interest</i> | <i>Total</i> |
|-------------------------------------|--------------------|-------------------------|--------------------|
| <i>This Year</i> | | | |
| CEDF Trustee Limited (formerly CDC) | 416,667 | 167,336 | 584,003 |
| Selwyn District Council | 1,678,722 | 672,966 | 2,351,688 |
| Other Approved Lenders | 5,800,000 | 1,015,273 | 6,815,273 |
| | <u>\$7,895,389</u> | <u>\$1,855,575</u> | <u>\$9,750,964</u> |
| <i>Last Year</i> | | | |
| CEDF Trustee Limited (formerly CDC) | 416,667 | 151,011 | 567,678 |
| Selwyn District Council | 1,184,723 | 426,345 | 1,611,068 |
| Other Approved Lenders | 3,700,000 | 429,548 | 4,129,548 |
| Christchurch City Council | 494,000 | 180,088 | 674,088 |
| | <u>\$5,795,390</u> | <u>\$1,186,992</u> | <u>\$6,982,382</u> |

The company has loans from Canterbury Economic Development Fund Trustee Limited of \$584,003 (2009: \$567,679), Christchurch City Council of \$Nil (2009: \$674,088) and Selwyn District Council of \$2,351,689 (2009: \$1,611,068) (the Lenders). During the year the Christchurch City Council loan was transferred to the Selwyn District Council. Under the loan agreements the funds will be treated as suspensory loans unless and until the water management scheme is commissioned.

Interest on the Lenders' loans is to be accrued from October 2004 until the date the facility is repaid or when the lender converts the facility into shares. The interest rate on the loans is defined as midway between "offer" and "bid" of the 12 month swap rate as published on the Reuters FISSWAP page at 11am on the business day on which the interest rate is set, plus a margin of 50 basis points. Interest is currently accrued on these loans at 3.98%. All lenders have agreed to add all accrual interest to the loan balances.

The loans will not be repayable in cash until the scheme has been commissioned. At this stage:

- If the scheme proceeds and construction is funded by debt and equity finance, the lenders will have the option to convert their loans into shares (of an agreed class) in any associated and/or related company which may be or is to be the infrastructure owning entity which will be associated with Central Plains Water Limited. Rights to water do not attach to these shares. If lenders do not elect to convert their loans into shares the loans shall be repaid in cash over an agreed period of time.

- If the scheme proceeds and construction is wholly debt financed the lenders will have no right to convert the loan into shares in the associated and/or related company and the loans are to be repaid in cash over an agreed period of time.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

NON CURRENT LIABILITIES - CONTINUED

There are no specific maturity dates for the loans as repayment depends on the progress of the scheme and options chosen by the company and the lenders. If the scheme does not proceed, the loans apart from accrued interest will be converted into ordinary shares in the company on a dollar for dollar basis.

Included in the approved lenders were loans from related parties, e.g. Clovernook Farm Limited (G S Stevenson - Director) of \$59,094 (2009: \$54,094), Chiswick Farm Limited (J W Donkers - Director) of \$30,693 (2009: \$28,093), Praire Farm Limited (J W Donkers - Director) of \$35,415 (2009: \$32,415), Willsden Farm Limited (J W Donkers - Director) of \$51,942 (2009: \$47,542), Carlow Farm Limited (D J Catherwood - Director) of \$56,548 (2009: \$51,548), Synlait Limited (Shareholder) of \$601,315 (2009: \$Nil).

Loans from approved lenders have the following terms and conditions as part of their loan agreement. Interest on the approved lenders' loans are to be accrued from the drawdown dates until the date the facility is repaid which is to be within 3 months of the operational date of the scheme. The interest rate on the loan is fixed at between 10% - 13.50% per annum until the third anniversary of the drawdown. On the third anniversary of drawdown the approved lender shall adjust the interest rate to the current floating interest rate payable at the time. In consideration of the approved lender entering into the agreement with the company the company grants the approved lender a sub-licence to use resource consents (with certain restrictions) to the extent reasonably necessary to allow the approved lender to irrigate the approved lender's land.

Should the company be unable to continue to seek resource consents, or cease to do so for more than 6 months without repaying the loan, the approved lenders will have the option to continue with the consent application in the name of the Central Plains Water Trust or, with the consent of the Trust, in their own name. Unless the Trust elects not to proceed with the application for the resource consents the ownership of the resource consent will always remain in its name.

| 8 RECONCILIATION OF NET PROFIT with Cashflows from Operating Activities | Group & Parent This Year | Parent Last Year |
|--|---|-----------------------------|
| Net deficit for the year | (2,218,232) | (2,819,852) |
| Add Non-Cash Items: | | |
| Interest expense | 668,584 | 483,427 |
| | (1,549,648) | (2,336,425) |
| Add (less) Movements in Other Working Capital Items: | | |
| Accounts receivable and other receivables | (64,182) | 34,828 |
| Tax refund due | (574) | - |
| Accounts payable and accruals | 100,278 | 300,571 |
| | 35,522 | 335,399 |
| Net Cash Outflow From Operating Activities | (1,514,126) | (2,001,026) |

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

9 FINANCIAL INSTRUMENTS

Currency risk

The company has no exposure to currency risk.

Interest rate risk

The value of the financial instruments will fluctuate due to changes in market interest rates. This could impact on the cost of borrowing. The interest rates on the company's borrowings are disclosed in note 6.

Credit risk

In the normal course of its business the company incurs credit risk from trade debtors and transactions with financial institutions.

The company does not have any significant concentrations of credit risk. It does not require any collateral or security to support financial instruments as it only deposits with, or loans to, banks and other financial institutions with high credit ratings. It does not expect the non-performance of any obligations at balance date.

Liquidity risk

Liquidity risk is the risk that the company may encounter difficulty in raising funds at short notice to meet its commitments.

Capital management

The company's capital includes share capital and retained earnings. The company is not subject to any externally imposed capital requirements. There have been no material changes in the company's management of capital during the period.

Sensitivity analysis

At 30 June 2010 it is estimated that a general increase of one percent in interest rates would increase the company's deficit for the year by approximately \$66,395 (2009: \$48,199).

Fair values

The carrying value is considered by the directors to be the fair value for all on-balance sheet financial instruments.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

| As at 30 June 2010 | Loans and receivables | Financial liabilities at amortised cost | Total |
|------------------------------------|----------------------------------|--|---------------------|
| Assets | | | |
| Cash at bank | 895,927 | - | 895,927 |
| Accounts receivable and accruals | 89,267 | - | 89,267 |
| Tax refund due | 4,476 | - | 4,476 |
| Deposit on land | 22,000 | - | 22,000 |
| Total financial assets | 1,011,670 | - | 1,011,670 |
| Non financial assets | | | - |
| Total Assets | | | \$1,011,670 |
| Liabilities | | | |
| Accounts payable and accruals | - | 954,139 | 954,139 |
| Loans | - | 9,750,964 | 9,750,964 |
| Total financial liabilities | - | 10,705,103 | 10,705,103 |
| Non financial liabilities | | | - |
| Total Liabilities | | | \$10,705,103 |
| | | | |
| As at 30 June 2009 | Loans and receivables | Financial liabilities at amortised cost | Total |
| Assets | | | |
| Cash at bank | 107,053 | - | 107,053 |
| Accounts receivable and accruals | 25,084 | - | 25,084 |
| Tax refund due | 3,903 | - | 3,903 |
| Deposit on land | - | - | - |
| Total financial assets | 136,040 | - | 136,040 |
| Non financial assets | | | - |
| Total Assets | | | \$136,040 |
| Liabilities | | | |
| Accounts payable and accruals | - | 853,860 | 853,860 |
| Loans | - | 6,982,381 | 6,982,381 |
| Total financial liabilities | - | 7,836,241 | 7,836,241 |
| Non financial liabilities | | | - |
| Total Liabilities | | | \$7,836,241 |

10 EVENTS SUBSEQUENT TO BALANCE DATE

Other than a \$46,000 settlement relating to non-purchase of property the directors are not aware of any matters or circumstances since the end of the financial year, not otherwise dealt with in the financial statements that significantly or may significantly affect the operations of the company.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

11 SEGMENT REPORTING

The company operates predominantly in one industry to investigate, construct, and operate a water enhancement scheme.

All operations are carried out within New Zealand.

12 DIRECTORS' REMUNERATION AND OTHER BENEFITS

The Directors' remuneration paid during the year or due and payable is as follows:

| | <i>Accrued \$</i> | <i>Paid \$</i> | <i>Total \$</i> |
|---|-------------------|----------------|-----------------|
| D J Catherwood | 15,000 | - | 15,000 |
| J W Donkers | 15,000 | - | 15,000 |
| D G Marsh (resigned as a Director 14 August 2009) | - | 1,875 | 1,875 |
| P G Morrison | 30,000 | - | 30,000 |
| W J Palmer | 15,000 | - | 15,000 |
| G K Stevenson | 15,000 | - | 15,000 |
| | <u>90,000</u> | <u>1,875</u> | <u>91,875</u> |

13 CAPITAL COMMITMENTS

There are no capital commitments at year end (30 June 2009: \$Nil).

14 CONTINGENT LIABILITIES

The company has a contingent liability of \$14,478 as at 30 June 2010 (2009: \$10,342). The company has three outstanding interest only invoices totalling \$14,478 owing to Environment Canterbury. The three invoices have not been included in the financial statements as they relate to interest accumulated on the outstanding balance owing to Environment Canterbury. The outstanding balance owing to Environment Canterbury is under dispute.

Central Plains Water Limited

Notes to the Financial Statements For the year ended 30 June 2010

15 RELATED PARTIES

During the reporting period Central Plains Water Limited entered into the following transactions with related parties:

Selwyn District Council

The Selwyn District Council holds one share in the company. The company made payments to Selwyn District Council for land use consent applications. These payments totalled \$78,514 for the reporting period (2009: \$215,936). The amount owed by the company to the council at 30 June 2010 was \$6,514 (2009: \$132,682). At balance date there was an outstanding loan balance to the Council of \$1,678,722 (2009: \$1,184,722) and interest of \$672,966 has been accrued on this loan balance (2009: \$426,345).

Christchurch City Council

The Christchurch City Council holds one share in the company. Christchurch City Council provided management support for the company for which no charge was made in the current year. During the year the Selwyn District Council took over the outstanding Christchurch City Council loan balance. At balance date there was no outstanding loan balance to the Council (2009: \$494,000).

Central Plains Water Trust

Central Plains Water Trust is an associate of the Christchurch City Council and Selwyn District Council. The trust provided services and assistance to the company to the value of \$55,256 (2009: \$79,532). The company made payments to the trust of \$430,842 (2009: \$831,736) for their payment to Environment Canterbury for the statutory charges for processing consent applications. The company owed \$440,385 (2009: \$129,542) for the processing of consent applications to the trust at 30 June 2010.

The following directors of the company are trustees of the Trust:

Mr D G Marsh
Mr D J Catherwood

Directors

Mr W J Palmer, a director of the company, is a partner in Buddle Findlay. During the reporting period the company entered into normal commercial transactions with Buddle Findlay. These transactions totalled \$389,497 (2009: \$575,164). The amount owed by the company at 30 June 2010 was \$76,390 (2009: \$161,577).

The Ritso Society Incorporated

Central Plains Water Limited made no payments to The Ritso Society Incorporated during the year (2009: \$25,000). The amount owed by the company at 30 June 2010 was \$Nil (2009: \$5,500)

The following directors of the company are members of Ritso:

Mr P G Morrison
Mr J W Donkers
Mr D J Catherwood
Mr G K Stevenson

Approved Lenders

Included in the non current liabilities are a number of loans from related parties. These related parties have been identified in note 6.



Audit report

To the shareholders of Central Plains Water Limited

We have audited the financial statements on pages 6 to 21. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 10 to 13.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no other relationship with, or interest in, the company or group.



Material uncertainty

In forming our unqualified opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the ability of the company and group to successfully obtain further funding. The Directors are presently uncertain about the outcome of these matters.

The financial statements have been prepared on a going concern basis, the validity of which depends upon obtaining further funding from existing shareholders and other sources. If the company and group was unable to continue in operational existence for the foreseeable future, adjustments may have to be made to reflect the fact that assets may need to be realised at amounts other than those at which they are currently recorded in the statement of financial position, and the company and group may have to provide for further liabilities that may arise. In addition, the company and group may have to reclassify non-current assets and non-current liabilities as current assets and liabilities. Further details of the circumstances of this material uncertainty are described in note 1 of the financial statements. Our opinion is not qualified in this respect.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company and group as far as appears from our examination of those records;
- the financial statements on pages 6 to 21:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 22 September 2010 and our unqualified opinion is expressed as at that date.

Christchurch

Central Plains Water Limited

Statutory Disclosure Statement For the year ended 30 June 2010

DIRECTORS INTERESTS

General Disclosures:

The following general disclosures of interest have been given by directors of the company pursuant to Section 140(2) of the Companies Act 1993.

William Palmer

| |
|---|
| Name of Company |
| Waddington Farm Limited Budfin Nominees Limited Otarama Investments Limited |

Patrick Morrison

| |
|--|
| Name of Company |
| New Zealand Wool Services International Limited Kaputone Wool Scour (1994) Limited Whakatu Wool Scour Limited Pauri Bank Farm Limited |

John Donkers

| |
|---|
| Name of Company |
| Camden Dairy Farms Limited Dairy Farm Management Services Limited Willsden Farm Limited Chiswick Farm Limited Praire Farm Limited Wigram Brewing Company Limited Camtelco Limited Alto Holdings Limited Baycity Communications Limited Baycity Communications Holdings Limited Baycity Technologies Limited Baycity Dairy Limited Farmside Limited Farmside Technologies Limited Burnham Farm Limited |

Douglas Catherwood

| |
|---|
| Name of Company |
| Carlow Farm Limited Te Pirita Irrigation Limited |

Central Plains Water Limited

Statutory Disclosure Statement For the year ended 30 June 2010

Douglas Marsh

| Name of Company |
|---|
| Management Resource Limited |
| Canterbury Agricultural Park Limited |
| Southern Cross Engineering Limited |
| Southern Cross Engineering Holdings Limited |
| Trustees SCE Limited |
| Wilson Engineering Systems Limited |
| Marsh Properties Limited |

Geoff Stevenson

| Name of Company |
|------------------------------|
| Clovernook Farm Limited |
| Harptree Farm Limited |
| Lowes Road Holdings Limited |
| Te Pirita Irrigation Limited |

Specific Disclosures:

There are no specific disclosures of interest which have been given by directors of the company pursuant to Section 140(1) of the Companies Act 1993.

Directors and Former Directors

The persons listed below held office as directors during the year. No other persons held the office of director at any time during the year.

D J Catherwood
J W Donkers
D G Marsh (resigned as a Director 14 August 2009)
P G Morrison
W J Palmer
G K Stevenson

Central Plains Water Limited

Statutory Disclosure Statement For the year ended 30 June 2010

Interest Register

Mr D J Catherwood owns 500 shares in the company. Mr Catherwood is also a director and shareholder of Carlow Farm Limited which owns 1,100 shares in the company.

Mr P G Morrison owns 2,000 shares in the company.

Mr W J Palmer is a beneficiary and trustee of the Mullins Palmer Family Trust which owns 1,000 shares in the company.

Mr G K Stevenson is a director and shareholder of Harptree Farm Limited which owns 900 shares in the company. Mr Stevenson is also a director and shareholder of Clovernook Farm Limited which owns 2,127 shares in the company.

Mr J W Donkers is a director of Willsden Farm Limited which owns 5,142 shares in the company and a director and shareholder of Chiswick Farm Limited which owns 3,159 shares in the company. Mr Donkers is also a director and shareholder of Praire Farm Limited which owns 3,453 shares in the company.

The directors have declared that they do not have any other interest in transactions with the company, apart from those disclosed in Note 16 to the Financial Statements.

Use of Company Information

There were no notices from the directors of the company requesting to use company information in their capacity as directors which would not have otherwise been available to them.

Share Dealing

During the reporting period no directors have acquired any further direct interests in the company.

Donations

There were no donations made during the 2010 financial year.

Directors' Benefits

The directors have not received or become entitled to receive any benefits other than a benefit included in directors' fees as shown in financial statements.

Directors' Insurance

The company has arranged policies for directors' liability, which ensures that generally the directors will incur no monetary loss as a result of actions undertaken by them as directors.

