Atihau-Whanganui & Morikaunui Incorporations

Report prepared for:

Committees of Management

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Disclaimer and Status

This report has been prepared by Burleigh Evatt for the benefit of Atihau-Whanganui Inc and Morikaunui Inc for the purpose of advising on their proposed amalgamation. This report should be read in conjunction with the statements and declarations set out in Appendix B: regarding our independence, qualifications, use of this report, reliance on information, general disclaimer, and indemnity.

In preparing this report Burleigh Evatt has relied on the accuracy and completeness of information supplied to it by the Incorporations and their advisers. Burleigh Evatt can take no responsibility for outcomes arising from any inaccuracy or incompleteness of the information supplied or for any failure to provide information relevant to the advice.

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The Incorporations acknowledge that they will use their own judgement in using the advice provided.

THIS REPORT IS A DRAFT

Figures and text enclosed in square brackets [ ] are provisional and may change.

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Summary

We were asked three questions …	1. What is the per-share value of Atihau-Whanganui Inc and Morikaunui Inc? 2. Will the proposed amalgamation add value for shareholders? 3. What is a fair share exchange ratio?
To answer the questions …	We had to find a way to fairly value the incorporations on a like-for-like basis. The problem is the leased lands: • Using market or government valuations would be unfair to Morikaunui Inc shareholders because the low rents and other lease terms mean that today's shareholders cannot access all the full benefits of ownership. • To use recent financial performance would be unfair to Atihau-Whanganui Inc shareholders because it would understate what the leased lands will be worth once resumed. Our advice is that a discounted cash flow (DCF) valuation is the valuation appropriate method to resolve this issue.
What's the per-share value?	Using the DCF methodology, our advice is that the preferred shareholder values as at the reference date (30 June 2004) are as follows: • Atihau-Whanganui Inc is $37.1 million equal to $29.50 per share. • Morikaunui Inc is $5.2 million equal to $112.40 per share. • The additive valuation (sum of the parts) is $42.3 million. These valuations are of the incorporations as independent operating entities, including net assets and debts. The valuations take no account of planned management improvements or potential synergy enhancements that might result from the proposed amalgamation.
Will amalgamation add value?	Management's planned business improvements will potentially add $4 million to shareholder value. However these improvements are of a nature that could occur whether or not the amalgamation proceeds and are not a benefit of amalgamation. We estimate the value of synergy enhancements to be $7.4 million, a 16 percent increase over the additive value of the incorporations with management improvements. Synergy enhancements result from cost savings and risk reduction The proposed amalgamation has the potential to add value for shareholders.

What's a fair share exchange ratio?	Our advice is that a share exchange ratio can be considered fair when (i) the shareholders face no additional business and financial risk and (ii) their shareholding reflects the economic value of their capital contribution. Our advice is that a share exchange ratio of [1:3.8] (new shares/old shares) for Atihau-Whanganui Inc and 1:1 for Morikaunui Inc shares meets the fairness test. At that share exchange ratio the benefits of planned management improvements and synergy enhancements will be shared between the Atihau-Whanganui and Morikaunui shareholders in the proportions [88/12] the same as their relative contributions of economic capital to the new incorporation.

1. Introduction

Introduction	The combined Committees of Management of the Atihau-Whanganui and Morikaunui Incorporations (AW Inc, M Inc, and the incorporations) engaged Burleigh Evatt on 23 January 2004 to provide advice on their proposed amalgamation, as follows: • An independent estimate of the business valuation of the incorporations. • Advice on the potential added value arising from the amalgamation. • Advice on an appropriate share exchange ratio for the merger. In this respect we have been asked to act as an independent financial adviser Committees. At a subsequent stage, if the proposal amalgamation proceeds, we may be asked to provide a fairness opinion for the benefit of shareholders.
Transaction description	The transaction is part of a unified project aimed at simplifying the structure of the Atihau-Whanganui and Morikaunui Incorporations, described below in its key terms: • Amalgamation of Atihau-Whanganui Inc and Morikaunui Inc into the Atihau Morikau Inc. If approved by the respective shareholders at special general meetings to be held in June 2004, the Committees of Management will write to the Māori Land Court under seal seeking an order from the Court. The Court order will dissolve the existing incorporations and incorporate the Atihau Morikau Incorporation as their successor, governed by a single Committee of Management. The new Committee of Management will be comprised of the former members of the combined Committees of Management. • Adoption of the corporate purpose and Constitution of the Atihau-Whanganui Inc (which is the same as the Morikaunui Inc's) by the Atihau Morikau Incorporation. ~~• [Expected distribution of a dividend by Atihau-Whanganui Incorporation and Morikaunui Incorporation prior to the completion of the amalgamation and crystallisation of the fiscal benefits connected with retained revenue reserves.]~~ At a later stage, once the amalgamation is consummated, the Committee of Management intends instituting a reorganisation of the operations with the purpose of achieving an appropriate level of focus on the respective land holding, commercial development, and social/cultural/tribal development roles that take full advantage available under the law of the new taxation regime for Māori authorities.

Background	Atihau-Whanganui Inc and Morikaunui Inc are both Māori incorporations regulated under Part 13 of the Te Ture Whenua Māori Act 1993 (the Act), the Māori Incorporations Regulations 1994 (the Regulations), and by the Māori Land Court-Te Kooti Whenua Māori (the Court) and by their respective Constitutions, both dated 4 November 1998. The incorporations operate substantial farming businesses on [50,000] acres of ancestral lands of the Atihau a Paparangi and lease out [70,000] acres of Māori freehold land. The combined Committees of Management have resolved to consider amalgamating the incorporations. The principal reasons for amalgamation are as follows: • Both are in similar lines of business in the same geographic region. • There is a significant and growing shareholder overlap. • The business affairs of both incorporations are run on a day-to-day basis by the same executive management team under the same governance group, and employ the same external legal and accounting advisers. • There would be cost savings arising from reduced administration and duplicated reporting to shareholders and the Court from amalgamating the Incorporations. The on-going cost savings realised by amalgamation would outweigh the immediate costs associated with amalgamating the Incorporations.
Legislative framework	Section 252 of the Act provides the legislative framework for an amalgamation of two Māori incorporations. Clause 4(1)(b) of the Regulations specifies that an amalgamation of two Māori incorporations requires a special resolution of shareholders. Clause 5.1(b) of both Constitutions repeats that stipulation. The Act (and Constitutions) defines a 'special resolution' as follows: "Special resolution", …, means a resolution that has been passed at a general meeting of shareholders of the Maori incorporation, being a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. The Constitutions set the threshold for passing a special resolution as a simple majority of those present and eligible to vote on the special resolution at a general meeting of shareholders (other than a special resolution relation to the alienation of Māori freehold land which requires a 75 percent approval under clause 5.5 and Section 254 (1)(b)).
Central questions	The central question addressed in this report is whether there is sufficient additional shareholder value created by the amalgamation to warrant a recommendation to shareholders by the Committees of Management to vote in favour of the amalgamation proposal. The related question, addressed in this report, is the fairness of the distribution of the additional value (in relation to the balance of value, risk and reward) deriving from business improvements and synergy enhancements as between the shareholders of Atihau-Whanganui Inc and Morikaunui Inc under the proposed amalgamation terms. It

is envisaged that the Court will look closely at fairness issues in reaching its decision on the merits of the proposition[1].

The key issue in addressing the central question is how to fairly value the incorporations on a like-for-like basis. The special problem is the valuation of the leased lands. Using standard market (comparative) or government valuations would be unfair to M Inc shareholders because the depressed rents and other lease terms mean that today's shareholders cannot access all the full benefits of their ownership. To use recent financial performance would be unfair to AW Inc shareholders because it would understate what the leased lands will be worth (to all shareholders once resumed on expiry of the leases.

Information sources and limitations

In the conduct of the engagement Burleigh Evatt has collected and analysed certain information and other documentation provided by the incorporations. The following information was used in the preparation of this report:

- Audited financial statements of Atihau-Whanganui Inc for the years ended 30 June 2001 to 2003.
- Audited financial statements of Morikaunui Inc for the years ended 30 June 2001 to 2003.
- Discussions with the Committee of Management, Chairman and General Manager.

In addition, Burleigh Evatt has analysed publicly available information, including:

- Financial research and analysis published by consultants, stockbrokers and investment banks.
- Research and analysis concerning companies with similar operating characteristics to the Incorporations.
- Share prices and debt securities prices and yields.

Burleigh Evatt has not been requested to conduct, nor have we conducted, any independent appraisal of any assets or liabilities of Atihau-Whanganui and Morikaunui Inc. Our advice is necessarily based on financial, economic and market information available for evaluation as of the close off date of the report.

[1] The question of when a fairness opinion will be needed is usually guided by legal considerations. Fairness opinions are generally employed in corporate transactions when there is a less than arms length relationship between the parties. Even in cases where there are no conflicts of interest, fairness opinions are used. Directors will obtain a fairness opinion in connection with a transaction if they believe that they lack the specific expertise necessary to reach, on their own, an informed opinion as to the fairness of the proposed transaction to all concerned as required to properly perform their duties.

Notice	This report should be read in conjunction with the statements and declarations set out in Appendix B: regarding our independence, qualifications, and restrictions on the use of this report, reliance on information, general disclaimer, and indemnity. A financial adviser retained to provide advice on a transactions should be someone who is independent of any of the parties to the transaction and who has the education, experience and expertise needed to analyse the financial terms of the proposed transaction using generally employed methods. It is good practice for the financial adviser to provide an attestation on their independence and credentials. This attestation is contained in Appendix B:. All monetary amounts in this report are expressed in New Zealand currency and are stated exclusive of Goods and Services Tax (GST), unless indicated otherwise. Generally, references to *year* should be taken as referring to AW Inc and M Inc's financial year ending on 30 June.
Reference and cut off dates	The reference date for the valuations is 30 June 2004, immediately prior to the intended date for consummation of the proposed amalgamation on 1 July 2004. The cut off date is 14 February 2004. This the last date at which new information was able to be incorporated into the analysis.
Report structure	The report is structured as follows: • Section 2 Business valuation. • Section 3 Share exchange ratio. Appendix A: and Appendix B:.
Next section	In the next section we present our review of the business valuations of Atihau-Whanganui Inc and Morikaunui Inc.

2. Business valuation

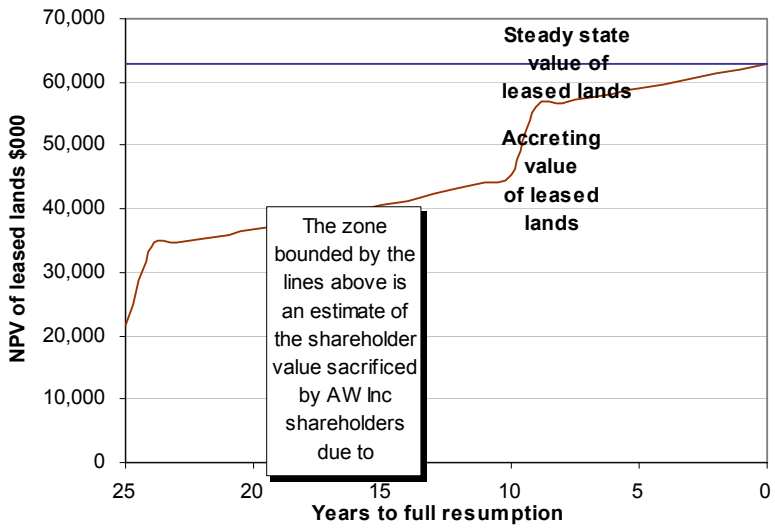
Introduction	In this section we set out our independent estimates of the valuation of Atihau-Whanganui Inc and Morikaunui Inc, and make estimates of the potential business improvement and synergy enhancement arising from the amalgamation to give an overall valuation of the proposed new combined entity, Atihau Morikaunui Inc. In the analysis we have treated the proposed amalgamation as a share-for-share acquisition by Atihau Morikau Inc (the new entity) of both AW Inc and M Inc.
Valuation standard	The conventional standard for valuation of a business or business assets is the stand-alone fair market value (otherwise known as stand-alone value, fair market value, FMV or SAV). This is defined as follows: *'The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious financial buyer with no ties to the seller, and a knowledgeable, willing but not anxious seller, both at arms-length'.* When both the candidates are publicly listed, the business valuation process is quite easy as the stand-alone value of each is their respective market capitalisations. The only tricky part then is estimating the synergy and the timing of its achievement. When a target is a closely held business, its stand-alone fair market value is best determined by business valuation appraisal. The techniques of business valuation that are relevant are discussed in Appendix A:.
DCF analysis	We have undertaken a discounted cash flow (DCF) analysis of the incorporations. A DCF valuation involves calculating the net present value (NPV) of projected cash flows using a discount rate that reflects the business and financial risk associated with the projected cash flow stream (see Appendix A: for a discussion of the method used). The DCF method is preferred in this case for the following reasons: • It is a fundamental valuation technique that makes use of all available information about present and future prospects of a business. • It allows explicit account to be taken to the value consequences of the current arrangement for leasing approximately [70,000] acres of land owned by AW Inc. Figure 1 shows the value sacrifice incurred by the shareholders of AW Inc due to the lease arrangements, and the progressive accretion of value over time as the date for full resumption approaches. • It allows the impact of head office administration expenses to be analysed in the same framework as the core business assets. • It allows the effect of changed tax rates to be included in the analysis.

- It facilitates estimates of the value of business improvements and synergy enhancements.

Figure 1

Explanation: this chart shows the accretion of value year-by-year of the AW Inc leased lands as the lease expiry dates approach and rental income is replaced by after-tax farm income (after payment for improvements and investment in livestock).

LEASED LANDS VALUE ACRETION WITH TIME TO FULL RESUMPTION



Taxation

Māori authorities (including Māori incorporations) are taxed differently from other corporate entities in New Zealand. Under proposals[2] enacted in 2003 there will be a number of changes to the taxation of Māori authorities, described below in their key terms:

- Effective for the financial year ending (30 June for the incorporations) 2005 A lower tax rate of 19.5 percent will apply to the taxable income of Māori authority (previously 25 percent).

- An imputation system will provide for the tax paid by the Māori authority to be passed through to members as 'Māori authority credits'. Previously, distributions made by a Māori authority were deducted from income for the purposes of calculating tax (and taxable in the beneficiaries' hands).

- Māori authority credits will be fully refundable. This is not the case for company imputation credits.

The taxation treatment of Māori authorities is not considered to be a preference but a notional arrangement to reflect more accurately the average marginal tax rates of relevant shareholders[3] (many of whom would be on a 19.5 percent personal tax rate) and would need to file tax returns solely for the purpose of obtaining a lower rate of

[2] See http://www.taxpolicy.ird.govt.nz/publications/files/html/maybillcom02/com02.html
[3] PricewaterhouseCoopers estimates the average marginal tax rate of New Zealand investors to be 28 percent.

taxation on distributions from Maori authorities), or have the benefit of tax exempt charitable status.

Taxation affects business valuation directly through reduction of free cash flow, and indirectly through its impact on the rate used to discount future free cash flows. Therefore understanding the relevance of taxation to valuation is of high importance.

Relevant values

Four value benchmarks are relevant to mergers:

- The stand-alone fair market value of the acquirer (in this case the new entity, AM Inc). The value of the acquirer should be at its stand-alone value without any of the enhancements which are expected to occur as a result of acquiring the target. Since AM Inc is a yet-to-be-formed entity it has a nil value for the purposes of this exercise.

- The stand-alone fair market value of the seller(s) (or target(s)) (AW Inc and M Inc). The stand-alone value of the target(s) should be determined exclusive of all enhancements the acquirer or the acquired bring to the merger[4].

- The additive valuation which is simply the arithmetic combination (sum of the parts) of the target and acquirer without any consideration of merger benefits. The additive valuation may include planned improvements that do not depend on the merger for their realisation.

- The combination valuation which reflects the synergy enhancements anticipated from the combination. The valued combination should be with the revenues and expenses of the two businesses combined as they existed in the stand-alone valuation of each, then adjusted to reflect the enhancements expected to result from the combination.

We address these values below.

[4] Practically, adherence to this view will seldom result in consummation of an acquisition. The practical issue is the valuation of the synergy and the determination of the portion of the synergy value that should be included in the price paid to achieve the acquisition.

Atihau-Whanganui Inc stand alone value

Five components contribute to the stand alone value of AW Inc:

- The net cash flows arising from farming operations.
- The net cash flows arising from leased lands.

  Initially these cash flows consist of rental. On resumption at the lease expiry the cost of compensation for improvements and investment in stocking the properties is incurred. The rentals cease and are replaced by net farming profits. It is assumed that at resumption the farms are in a steady state needing no new capital expenditure on property plant and equipment beyond the annual depreciation charge.

  Farm productivity and stocking costs is assumed to be equal on a per acre basis to the per acre averages for existing faming operations.
- The net cash flows absorbed by head office administration costs.
- Net non-farm assets.
- Debt.

Table 1

STAND ALONE DCF VALUATION OF ATIHAU-WHANGANUI INC

$000	Leased lands	Farming ops.	HO costs	Enter-prise value	Plus net assets	Less debt	Share-holder value
Net cash flows	12.292	20,818					
Continuing value	9,341	4,378					
Total	**$21,633**	**$44,577**	**-$9,728**	**$37,061**	**$966**	**-$966**	**$37,061**

Source Burleigh Evatt estimates

All the above cash flow amounts are converted to a net present value at a discount rate of 7.6 percent which is the assessed nominal weighted average cost of capital (WACC) for Atihau-Whanganui Inc. The derivation of the nominal WACC is described in Appendix A:.

Divided amongst the 1,256,259 shares on issue, this values each Atihau-Whanganui Inc share at $[29.50].

Morikaunui Inc stand alone value

Three components contribute to the stand alone value of Morikaunui Inc, as follows:

- The net cash flows arising from farming operations.
- The net cash flows absorbed by head office administration costs.
- Net non-farm assets.

Table 2

STAND ALONE DCF VALUATION OF MORIKAUNUI INC						
$000	Farming ops.	HO costs	Enter-prise value	Plus net assets	Less debt	Share-holder value
Net cash flows	6,735					
Continuing value	943					
Total	**$7,677**	**-$5,027**	**$37,061**	**$213**	**..**	**$5,239**

Source Burleigh Evatt estimates

The cash flow amounts are converted to a net present value at a discount rate of 11.7 percent which is the assessed nominal weighted average cost of capital (WACC) for Morikaunui Inc, see Appendix A:.

Divided amongst the 46,620 shares on issue, this values each Morikaunui Inc share at $[112.38].

Contribution to new entity

In the table below we present information on the relative contribution to the new entity made by AW Inc and M Inc on a range of measures, including the DCF valuation.

Table 3

MEASURES OF CONTRIBUTION TO THE NEW ENTITY					
	AW Inc $000	M Inc $000	AW Inc + M Inc $000	AW Inc (AW INC + M INC) %	Share exchange ratio $ER_{Buyer/Seller}$
Shareholder equity					
2002 book value	21,546	7,863	29,409	73	9.83x
2003 book value	22,433	7,555	29,988	75	9.08x
2002 market value	43,475	10.093	53,568	81	6.26x
2003 market value	64,022	9,938	73,960	87	4.18x
2003 market value discounted**	38,468	8756	47,225	81	6.13x
Surplus 2002	1,462	583	2,046	71	10.75x
Surplus 2003	1,833	366	2,199	83	5.37x
DCF valuation	37,061	5,239	42,300	88	3.81x
Land area	1-1,284	12,606	113,890	89	3.35x
Simple average	**81%**	**19%**		89	3.35x

*Value of Māori freehold land discounted by 47 percent reflecting *Mangatu*.

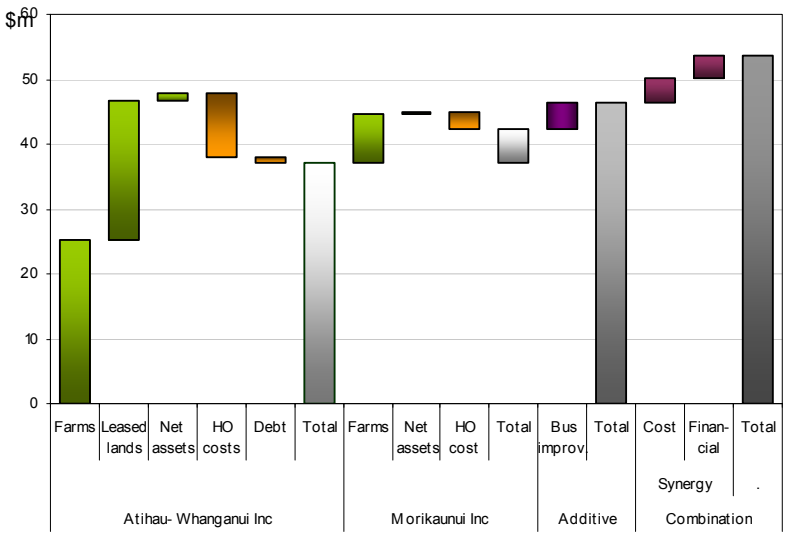
Sources: Annual reports, Burleigh Evatt estimate

It can be seen from the table that the contribution ranges from 73 to 87 percent with a simple average of 80 percent. This is illustrated in Figure 2.

Figure 2

Explanation: the LHS shows the relative contribution by AW Inc, and the RHS shows that by M Inc on a range of relevant measures.

MEASURES OF CONTRIBUTION TO THE NEW ENTITY



Using the DCF method to estimate the relative value of the economic capital of the incorporations produces a contribution of [88] percent. This is our preferred estimate as it employs the methodology that uses the greatest amount on information about the future, as well as the recent past, to estimate the contribution.

Proposed business improvement

We have separately estimated a value for business improvements proposed by management. These proposed improvements could occur whether or not the amalgamation proceeds and therefore cannot be reasonably described as a synergy enhancements arising from the amalgamation.

The value of business improvements proposed by management has been estimated by assuming it would be possible to cut by one-third the annual costs of head office cost over a three year period. The remaining head office overhead will continue to grow at 1 percent faster than inflation year-by-year. Moreover there will be an investment of approximately $100,000 required to achieve the administrative cost savings. This is a scenario that provides a base for calculation rather than a reflection of management's actual planned improvements.

Under this scenario the present value of planned business improvement is $[3.9] million at the estimated nominal WACC of the additive incorporations of 8.0 percent.

Synergy enhancements

For synergy enhancements to have value, combining the incorporations must result in either higher (or a faster rate of growth in) revenue or a reduction in expenses.

Three kinds of synergy enhancements are relevant:

- Operating synergy results from the combination of operating units to achieve unit cost saving and/or higher revenue. Cost savings chiefly arise from improved

procurement practices, increased market power in relation to suppliers, better inventory management or as result of lumpiness and indivisibilities in key cost items. Revenue synergies are the result of product bundling and cross selling, and more effective utilisation of marketing and sales forces.

The estimated net present value of operating cost synergies is $[3.9] million.

- Financial synergy[5] results form the combination being able to access external finance on better terms from being a larger entity or being able to access capital markets denied to smaller firms. Financial synergies may also be the result of improved risk management including accessing internal hedges and as a result of utilisation of preferential taxation provisions. Experience shows that the combination of smaller into large entities also reduces risk.

  The other source of financial synergies is reduction in business risk. Usually risk reduction synergy is not counted because investors can access such synergy by adjusting their portfolio holding. However in this case it is considered that such synergies are available due to the restricted nature of shareholding in Māori incorporations.

  The estimated net present value of financial synergies is $[3.5] million.

- Strategic synergy is the most nebulous form of merger gain, often claimed but seldom realised in practice. Such synergies arise from the combination being able to derive tangible advantage from its ability to shape the terms on which competition occurs in its industry segments.

  It is not considered that the proposed amalgamation will give rise to strategic synergy gains that are able to be confidently valued at this stage.

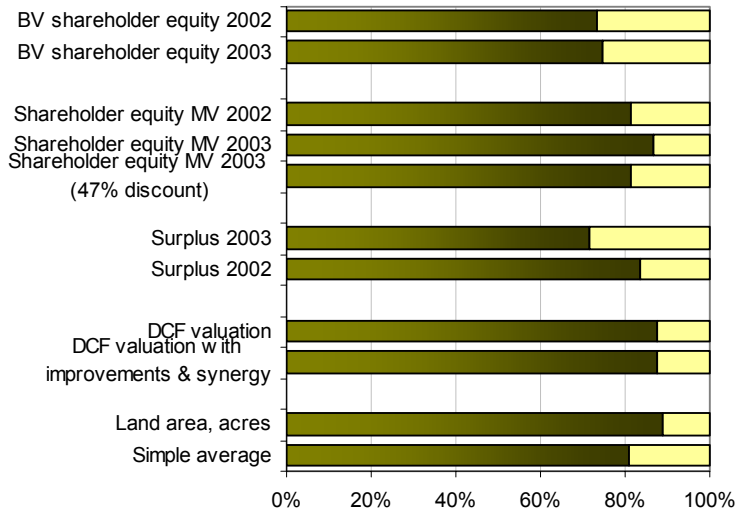
DCF valuation of the combination	Combining all the elements produces a shareholder valuation of the new entity of $[53.6] million. The contributions of the components to the value of AM Inc are illustrated in Figure 3.

[5] For a discussion of financial synergy see Leyland, H. and Skarabot, J, *On Purely Financial Synergies and the Optimal Scope of the Firm: Implications for Mergers, Spinoffs, and Off-Balance sheet Finance*, June 2003, Haas School of Business, University of California, Berkley.

Figure 3

Explanation: this chart shows in NPV terms the contribution of the various components of value of AW Inc and M Inc, and the planned business improvements to the combined value of the incorporations. The addition of operating and financial synergy enhancements makes up the combination vale of the amalgamated entities, AM Inc.

CONTRIBUTIONS OF COMPONENTS TO VALUE OF AM INC



Lack of marketability discount

It is usual to apply a discount for lack of marketability in situations such as this where there are restrictions on the sale of shares and or preferential or pre-emptive rights for some shareholders. Such discounts can be considerable[6]. However in this case since the point of the valuation is not sale, but to establish the relativity between the values of the entities contributing to the new entity, there is no need to apply any such discount.

Sensitivity analysis

We have assessed the sensitivity of the valuations to changes in key valuables relating to the external operating environment and market conditions, and to internal business improvement. The following table shows the range of sensitivity of the combined entity shareholder value to these variables; assess probabilities of the alternative scenarios and an overall probability-weighted expected value.

[6] For example Burleigh Evatt has estimated that the lack of marketability discount for Air New Zealand A shares relative to the unrestricted B shares amounted to an average of 35 percent over the whole period for which the shares were listed.

Table 4

Explanation: Impact of management improvement is the percentage reduction in administrative costs. Impact of external environment is the long run nominal growth in net farm income (pre-tax)

SENSITIVITY OF NEW ENTITY VALUE TO VARIATION IN KEY VALUE DRIVERS & SUBJECTIVE PROBABILITIES

External operating environment (farming prospects) scenarios	Management improvement scenarios		
$000	**Rosy**	**Base**	**Bleak**
Rosy	57,891	55,741	54,729
Base	55,738	53,695	52,734
Bleak	53,075	51,171	50.276
Probabilities,%	**Rosy**	**Base**	**Bleak**
Rosy	18	9	0
Base	2	20	1
Bleak	19	21	10

Source Burleigh Evatt estimates

The range of estimates for the DCF valuation of the new entity AM Inc is $[50.2] million to $[57.9] million. This range is important because it establishes one of the boundaries for assessing an equitable share exchange ratio between shareholders.

Nature of synergy

We emphasise that the word *potential* qualifies our assessment of the benefit from management improvements and synergy enhancements.

The magnitude of the potential gain depends heavily on future events, including failure to execute the transaction in accordance with the expected terms and within the expected time period. Other factors may affect the magnitude of the potential gain, including the following:

- Changes in prevailing interest rates and other economic factors which generally influence the price of securities and farming's prospects.
- Inability to access required skills and resources, including external capital on acceptable terms and when required.
- Unforeseen deterioration in the prospects of Atihau Morikau Inc from economic, natural or man-made sources including specific non-performance of contractual obligations by third parties.
- Actions taken or restrictions imposed by any governmental agencies or regulatory authorities.
- Natural or man-made disasters.

Risk

Business and financial risk associated with the day-to-day operation of the incorporations' businesses is measured and accounted for through the cost of capital. But there are certain kinds of risk that are not included in the costs of capital calculation. Principally these are systematic risk (the risk of being in the market, for which the market provides no compensation) and merger risk.

Merger risk has been the subject of several studies. One of the most well known studies is by A. T. Kearney[7], a management consultancy. In a global survey of 115 transactions conducted in 1998 and 1999 they found that 58 percent of mergers failed to reach the value goals set by top management. In more than 50 percent of cases the mergers destroyed value. Fully 53 percent of respondents reported that the post-merger integration (PMI) phase carries greatest risk.

Companies with a successful merger track record display certain common characteristics:

- Rely on management with experience of mergers.
- Stay close to home. The top acquirers bought related or closely related businesses in 80 percent of cases.
- Focus on a strong core business.
- Financial strength makes a significant difference
- Avoid mergers of equals. Mergers of unequals have better chance of success and yield greater benefits for the merging parties[8].

A major reason for merger failure is the acquirer over-paying and enduring so called 'winner's curse'. This stems from overconfidence on the acquirer's part despite gaps in information. This widely reported hubris has acquired names such as 'deal fever' – defined as an overwhelming desire by less experienced people to do anything or spend any amount to bring in a deal.

Some of the principal causes of merger failure are not relevant in this case. The combined management provides security, as does the geographic and operational similarities and the difference in relative sizes. The only question mark is our minds is over financial strength, given the general reluctance of banks to lend to Māori incorporations' lack of access to capital markets, and the looming cost of resuming the leases that will expire in 2005, 07 and 08.

Sharing merger benefits

Under the proposed terms of the amalgamation the benefits from management's planned improvements and the synergy enhancements will be shared between the AW Inc and M Inc shareholders in proportion to their contributions of economic capital to the combined entity. The shareholders take risk on realisation of those benefits in the same proportion.

A purist perspective would be that this approach over-rewards the Morikaunui Inc shareholders. As the smaller of the combining entities M Inc has few alternative ways of reducing its business and financial risk than combining with AW Inc. Therefore part of the financial synergy is a benefit flowing from AW Inc's greater size that M Inc shareholders would not be able to obtain independently. Therefore in principle AW Inc shareholders should retain the entire benefit of financial synergies (M Inc). However in

[7] Harbeck, M, Kröger, F and Träm, M, *After the Merger: Seven Rules for Post-Merger Integration*, A. T. Kearney Inc,
[8] See also Leland and Skarabot (2004) referenced in footnote 8 for an analysis of the reasons for this effect.

practice we believe this argument is not worth making for the small amount of potential benefit involved (400,000), especially given that the whole concept of financial synergy is a difficult one for non-experts.

Conclusion

Our estimate of the shareholder value of Atihau Morikaunui Inc as at 30 June 2004, immediately before the proposed amalgamation, is $[50.2] to $[57.9] million, with a preferred value of $[53.7] million. Of this Atihau-Whanganui Inc contributes [88] percent and Morikaunui Inc contributes [12] percent of the economic capital.

The potential value added by amalgamation of the two incorporations (excluding business improvement which could be achieved with no structural change) is estimated at $[7.4] million, a [16] percent improvement on the combined pre-amalgamation value of the two incorporations. This value added arises from estimates of synergy enhancements and risk reduction and has a value equivalent to $[19.74] per share in Atihau Morikaunui Inc (the new entity).

In the next section provide our analysis of the share exchange ratio and resulting shareholding structure for the amalgamation of the incorporations.

3. Share exchange ratio

Introduction	This section presents a framework for determining, and estimates of, the fair share exchange ratio for the proposed amalgamation and the resulting shareholding structure of AM Inc, the new entity.
Share exchange ratio methodology	In most share-for-share acquisitions there is a single buyer and single target. The share exchange ratio in such cases, therefore, derives easily from the following formula: $P_B \times \Delta S_B = P_T \times S_T$ **(1)** Where: $P_B \times \Delta S_B$ is the market value of additional shares issued by the buyer. $P_T \times S_T$ is the value of the target (seller) shares. By simple rearrangement of (1) it can be shown that the share exchange ratio (target shares for buyer shares) is as follows: $P_T / P_B = \Delta S_B / S_T$ **(2)** In the case in hand a new entity is the acquirer and the antecedent entities are both 'sellers'. However in the proposal under consideration the proposed exchange ratio for Morikaunui Inc shares is 1:1, meaning that Morikaunui shares are defined as equivalent in value to Atihau Morikau Inc shares. Therefore an exchange ratio expressed relative to Atihau Morikau Inc shares is mathematically the same as a ratio expressed in relation to Morikaunui Inc shares.
Share exchange ratio	The exchange ratio has been assessed by looking at the relative valuation of the incorporations, giving greatest priority to consistency and comparability rather than the estimate of the absolute value of the economic capital of the incorporations considered as individual entities. From such perspective, the valuations have been performed by considering the two incorporations as independent (stand alone) entities from an operating standpoint. Hence, the share exchange ratio determination does do not include any considerations concerning operating, financial and strategic synergies that may result from the amalgamation.
Deal boundaries	The following chart has been prepared using the deal boundaries approach of Distinguished Professor Robert Brunner[9]. The chart depicts the minimum and maximum acceptable exchange ratio for the shareholders of AW Inc and M Inc respectively, alongside the proposed share exchange ratio of [3.8] AW Inc shares to one AM Inc (and M Inc on a 1:1 AM Inc to M Inc exchange ratio) share.

[9] Methodology from Robert F. Bruner, Distinguished Professor of Business Administration, Darden Graduate School of Business, University of Virginia

Figure 4

Explanation: the dotted line labelled 'Proposed SER DCF value range' shows the DCF value range for the new entity at the proposed share exchange ratio of 5.2 to be within the 'win-win' negotiation zone. The negotiation zone is bounded by the maximum and minimum acceptable share exchange ratios for AW Inc and M Inc.

PROPOSED SHARE EXCHANGE RATIO (SER) IN RELATION TO REQUIREMENTS OF AW INC & M INC SHAREHOLDERS

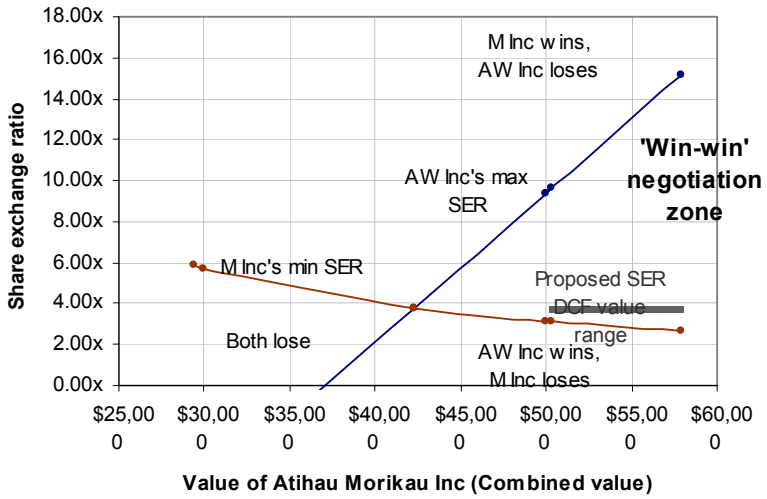


Table 5 summarises the estimated range for the share exchange ratio calculated as a ratio between the estimated value for each Atihau Morikau Inc share and the estimated value of each Atihau-Whanganui Inc share and each Morikaunui Inc share based on the minimum and the maximum of their respective ranges previously identified.

Table 5

SHARE EXCHANGE RATIO ESTIMATES AT THE COMBINED DCF VALUE OF AW INC AND M INC

	High	Mid point	Low*
Atihau Morikau Inc shares for each Atihau-Whanganui share	15.2	3.8	3.8
Atihau Morikau Inc shares for each Morikaunui Inc share	2.7	1	1

* Ratios below the mid point destroy value for both shareholder groups.

Note: the figures in this table have been rounded up.

Source Robert F Bruner's methodology, Burleigh Evatt estimates

Opinion

In our opinion an amalgamation of Atihau-Whanganui Inc and Morikaunui Inc that occurs at an exchange ratio that lies between the maximum and minimum exchange ratios depicted in Table 5 above would be fair to the shareholders of Atihau-Whanganui Inc and the shareholders of Morikaunui Inc.

At the mid point exchange ratio, estimated using the DCF method, the planned business improvements and anticipated synergy enhancements would be shared in proportions to the relative contributions that the economic capital of separate incorporations make to the new entity.

Accordingly we therefore recommend the mid point exchange ratio of [3.8] Atihau Morikau Inc shares for each Atihau-Whanganui Inc share, and one Atihau Morikau Inc

share for each Morikaunui Inc share. The following table shows the resulting shareholding structure and share valuations from applying the 5.2 share exchange ratio.

Table 6

RESULTING SHAREHOLDING STRUCTURE OF ATIHAU MORIKAU INC			
	AW inc	M Inc	Atihau Morikau Inc
Existing shares on issue	1,2,56,259	46,620	
Share exchange ratio	3.8x	1.0x	
Resulting new shares on issue	**329,779**	**46,620**	**376.399**
Interest in new Inc, %	88%	12%	100%

Source Burleigh Evatt estimates

Conclusion

In this section we presented our statement as an independent financial adviser on the fairness of the terms of the proposed transaction from the standpoint of the shareholders in Atihau-Whanganui Inc and Morikaunui Inc.

It is our opinion, subject to the qualifications and limitations described in this report that an exchange ratio of [3.8] Atihau Morikau Inc shares for each Atihau-Whanganui Inc share, and one Atihau Morikau Inc share for each Morikaunui Inc share, is equitable to the shareholders of both Incorporations.

Appendix A: Valuation using the DCF method

Introduction

Valuation is a practice which attributes a current value that reflects the expected future financial performance (free cash flows) of a business. Consequently, information about the expected future performance, such as financial forecasts, is fundamental to the valuation.

This appendix discusses in more depth the valuation methodology employed in our analysis, which is presented as a printout of the Microsoft Excel workbook used in its compilation.

Valuation methodology

There are four principal methodologies commonly used to value a business or shares in a trading enterprise:

- Discounted cash flow analysis (DCF).
- Earnings capitalisation.
- Industry rules of thumb.
- Proceeds from orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances:

- The DCF method is a fundamental valuation approach, which assesses the present value of future cash flows, recognising both the time value of money and risk. The value of an investment is equal to the value of the future free cash flows arising from the investment, discounted at the investor's required rate of return. We believe that the DCF methodology is the technically preferred and theoretically most correct method of determining the value of a business or asset. Application of DCF analysis generally requires the existence of a medium to long term cash flow forecast.
- Earnings capitalisation (or capitalisation of earnings or multiple of maintainable earnings) is the most commonly used method for valuing trading businesses with an operating history and an earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This method involves capitalising the earnings of a business by using a market-derived multiple that can be applied to various earnings measures, as follows:
  - Earnings before interest, tax, depreciation, and amortisation (EBIT).
  - Earnings before interest and tax (EBIT).
  - Net profit after tax (NPAT).
- Industry rules of thumb. In many industries, businesses are commonly valued using established rules of thumb. Generally, these rules of thumb are used to

cross-check the primary valuation methodology such as capitalisation of earnings or DCF. However in some industries they are the primary basis upon which buyers determine actual transaction prices. In farming businesses, for example, a price per carrying stock unit or per kg milk solids produced are representative examples of industry rules of thumb. Buyers will prefer rules of thumb such as a revenue multiple in circumstances where the buyer's cost structure differs significantly from the target's, such as in an industry consolidation.

- Proceeds from notional orderly realisation of assets. In the event that a business has a poor earnings record, or faces an uncertain earnings outlook, its value may have to be established by assessing the results of a notional realisation, liquidation or winding-up. A notional realisation assumes an orderly realisation process for assets, or the sale of the company or business as a going concern. Potential liquidation costs, timing, and tax consequences are taken into account[10].

  This method would typically be used if an earnings based valuation would give a lesser total value, implying that a rational owner or controlling shareholder would liquidate in order to maximise value.

DCF analysis

We have undertaken a limited DCF analysis of the Incorporations as a cross-check of our capitalisation of earnings valuation. A DCF valuation approach involves calculating the net present value (NPV) of projected cash flows using a discount rate which reflects the risk associated with the projected cash flow stream. In its simplest form, a DCF analysis proceeds through the following steps:

Step 1:	Seat aside the value of all assets, current and fixed, not used directly in the business to produce the estimated future earnings stream that is to be discounted.
Step 2:	Estimate future sales revenue year-by-year over the pre-selected (3 to 10 year) time horizon (value growth period, or estimation period).
Step 3:	Estimate costs of sales and other expenses year-by-year including depreciation or replacement of property, plant and equipment.
Step 4:	Estimate earnings before interest and taxation (EBIT) year-by-year.
Step 5:	Calculate net earnings from operating activities (NPAT) by deducting interest and taxation year-by-year.
Step 6:	Add back depreciation (subtract depreciation recoveries) year-by-year.
Step 7	Estimate and deduct the average incremental working capital (accounts receivable less payable, inventory and work in progress) required year-by-year.
Step 8:	Estimate and deduct the average incremental capital investment cost (for property, plant and equipment) year-by-year (add back asset sale proceeds).

[10] This analysis is slightly complicated in relation holdings of Māori land in that under Section 254 of the Act, such land held by and incorporation must be first offered to its previous owners before sale, and any such sale must be approved by the Court. This sale restriction, which protects the interest of traditional owners from indirect alienation, is nevertheless value depressing in financial terms.

	Step 9:	Add back depreciation year-by-year to arrive at an estimate of the free cash flow attributable to the owners of the business (shareholders)
	Step 10:	Calculate the continuing (terminal or residual) value at the end of the horizon period by capitalising the last year's projected earnings[11].
	Step 11:	Discount all year-by-year values, including the continuing value, to a present value using a risk-adjusted cost of capital for the discount rate. The result will be an estimate of the value of the business or enterprise value.
	Step 12	Add back all set-aside values (Step 1) for non-revenue producing assets and deduct the continuing vale of any debt. The total will be the NPV of the shareholders' equity value.

Projected cash flows

Application of a DCF valuation requires a medium to long term cash flow forecast, ideally for period of at least five years.

As we do not have a medium to long term forecast for AW Inc's and M Inc's business we have undertaken limited DCF analysis based on an extrapolation recent trends guided by the Ministry of Agriculture and Forestry' (MAF) latest SONZAF[12] report and assumptions about projected cash flows beyond the end of that period into perpetuity.

We have projected the cash flows arising from AW Inc's leased lands in a model that takes explicit account of the planned resumption at the expiry of leases in 2005, 2020 and 2030. At the expiry date the incorporation incurs a cost to compensate the lessee for two-thirds of the value of improvements to the land. The incorporation must also purchase livestock for the farming unit. It is assumed that the stocking rate $ per acre is the same as the average of the existing farming operations. Similarly it is assumed that the arising real pre-tax net farm income per acre is the same as the average of the existing farm operations.

Specific capital expenditure on property plant and equipment has been assumed to be in all years at levels equal to the annual depreciation charge.

Terminal or continuing value

A significant assumption in DCF valuation is the calculation of the terminal value of projected cash flows. Terminal value and continuing value tend to be used interchangeably.

The terminal value represents the value of the business at the end of the projection period. The terminal value is usually based on some measure of the performance of the business in the last year of the projection. The two most common methodologies used are, as follows:

- Exit multiple method. This assumes the business will be sold in the terminal year at a multiple of a financial operating metric (usually EBITDA). This is a terminal value.

[11] Continuing or terminal values are estimated using either the Graham formula or a value ratio that reflects realistic exit values. In this case continuing values have been used.

[12] Ministry of Agriculture and Forestry, *Situation and Outlook for New Zealand Agriculture and Forestry (SONZAF) 2003*, this predicts 15.9 percent deterioration in net farm incomes in the relevant region in 2004. See www.maf.govt.nz/mafnet/rural-nz/statistics and forecasts/sonzaf/2003/hyyoc.htm

- Growth in perpetuity method (the Graham[13] method) assumes that the business is held in perpetuity and that free cash flows continue to grow at an assumed rate. This is a continuing value.

  The growth in perpetuity method is used to calculate the continuing value.

Either method is accepted and widely used in business valuation. However the underlying assumption of perpetual existence, let along perpetual growth[14], is increasingly under challenge by academics and practitioners overseas.

The terminal or continuing value is discounted to the reference date using a discount rate relevant to the time period.

Discount rate

We have discounted free cash flows using our assessment of Incorporations' nominal WACC (i.e. incorporating inflation) as the discount rate. We have estimated the WACC using the following inputs[15].

Table 7

INPUTS TO THE DISCOUNT RATE (NOMINAL WAAC) ESTIMATE

Nominal WACC input	Source	Estimate
Risk free rate	Five year government stock yield	5.35 percent
Market risk premium	PWC research on the NZ equities market over the period 1924 to 2000	7.5 percent
Equity beta, β_e	Review of equity betas of comparable listed companies in New Zealand	0.73
Small company loading to equity beta	Reflects phenomenon of higher observed betas (riskiness) of small businesses	0.73
Cost of debt	Estimated average funding cost	8.00 percent 10.00 percent
Average investor tax rate	Statutory rate for Māori authorities from 2005 financial year	19.5 percent
Industry capital structure, $_{D/(D+E)}$	Review of equity betas of comparable listed companies in New Zealand	31.8 percent
Nominal WACC estimate	AW Inc M Inc Combined (AW Inc + M Inc) AM Inc (new entity)	7.59 percent 10.81 percent 8.03 percent 7.48 percent

Sources: Burleigh Evatt, PricewaterhouseCoopers Corporate Finance, MAF

In estimating the equity betas we have used the estimates made by PricewaterhouseCoopers Corporate finance in their regular publication The Cost of Capital Report[16]. Since there are no longer any NZX listed companies engaged in

[13] Graham, B. and Dodd, D., 1934 *Security Analysis*, McGraw Hill.
[14] A positive rate of real growth implies the business can forever outperform its costs of capital, a feat which few businesses have managed over even short time periods.
[15] We use a modified formulation of the capital asset pricing model (CAPM) to take account of New Zealand's dividend imputation regime and the fact that some investors although taxed on capital gains have significant opportunities to indefinitely defer the liability (Brennan-Lally) see Lally, M 1992, *The CAPM Under Dividend Imputation*, Pacific Accounting Review, vol 4, pp 31–44; 1996.
[16] PricewaterhouseCoopers Corporate Finance, 'Cost of Capital Report', June 2003, see www.pwcglobal.com/nz/eng/ins-sol/publications/Cost_of_Capital_aug_03.pdf

agriculture the agriculture sector of the NZX is made up of companies with direct exposure to farming business such a stock and station agents and meat procession companies. We have eliminated two companies as outliers, AFFCO because of the abnormal risk associated with it long running financial difficulties, and Williams & Kettle because of its apparently very low risk profile relative to the sector.

Error! Reference source not found. shows the company financial data used to estimate the asset beta and industry debt ratio.

Table 8

FINANCIAL DATA USED IN NOMINAL WACC ESTIMATION				
Company	NZX	EBIT multiple	Equity beta	D/(D+E) ratio
Affco Holdings Ltd	AFF	28.5	1.01	36
Cedenco Foods Lts	CED	6.2	0.77	14
Pyne Gould Guiness Ltd	PGG	11.0	0.68	56
Richmond Ltd	RHD	273.2	0.61	51
Williams & Kettle Ltd	WKL	5.9	0.37	19
Wrightson Ltd	WRI	5.6	0.84	6
Simple average			0.71	30.3
Simple average excluding AFF &WRI			**0.73**	**31.8**

Source PricewaterhouseCoopers Corporate Finance, NZ Stock Exchange

In estimating the asset beta to apply to the amalgamated incorporations we have made an adjustment of 0.15 to represent the decrease in non-diversifiable risk of the combined entity.

Error! Reference source not found. shows the calculation of the nominal WACC for the different entities.

Table 9

NOMINAL WACC ESTIMATE CALCULATION					
	AW Inc	**M Inc**	**AW Inc M Inc (pre-am)**	**New Inc (after-am)**	
Nominal WACC (post-tax)	**7.59%**	**10.81%**	**7.93%**	**7.39%**	R_e E/(D+E) + R_d (1 - T_c) D/(D+E)
Based on					
Equity beta, β_e	0.73	1.48	0.82	0.67	β_e
Small company loading to equity beta		0.75			
Asset beta, β_a	0.51	1.03	0.57	0.47	β_e E/(D+E)
Adjustment to AM Inc asset beta for covariance unanticipated by market				-0.15	
Debt beta, β_d	0.35	0.62	0.35	0.35	Debt premium / (E[R_m] - R_f)
Risk free rate, R_f	5.35%	5.35%	5.35%	5.35%	R_f
Estimated debt premium	2.65%	4.65%	2.65%	2.65%	k_d . R_f
Cost of equity, K_e	8.09%	12.01%	8.58%	7.80%	R_f (1- T_c) + β_e (E[R_m] - R_f)
Cost of debt (pre-tax), k_d	8.00%	10.00%	8.00%	8.00%	R_f + β_d (E[R_m] - R_f)
Equity market risk premium	7.5%	7.5%	7.5%	7.5%	E[R_m] - R_f
Target D/(D+E), %	30.3%	30.3%	30.3%	30.3%	D/(D+E)
Maori authority tax rate, T_{MA}	19.5%	19.5%	19.5%	19.5%	

Methodology from Lally, M 1992, 'The CAPM Under Dividend Imputation', Pacific Accounting Review, vol 4, pp 31–44; 1996
_____ 1996 'The CAPM under Dividend Imputation and International Portfolio Selection', Pacific Accounting Review, vol 8, pp 48–65
_____ 1998, 'Correcting Betas for Changes in Firm and Market Leverage', Pacific Accounting Review, vol 10, pp 98–115
Methodology for asset beta adjustment from Robert F. Bruner.
Source for equity market risk premium estimate is PricewaterhouseCoopers Corporate Finance

Synergy estimates

Combining the incorporations must result in either higher (or a faster rate of growth in) revenue or a reduction in expenses for synergy enhancements to have value

In estimating the value of potential synergy enhancements we have adopted a conservative approach and limited the estimates to operating synergy resulting from reduced administrative overhead costs (that are additional to management's planned business improvements, reduced farm input cost (estimated at 5 percent of non-wage costs), and financial synergy resulting from a lower cost of capital arising from reduced financial risk. Table 10 shows the calculation of the estimate of financial synergy enhancements.

Table 10

CALCULATION OF ESTIMATED FINANCIAL SYNERGY ENHANCEMENT

	AW Inc	M Inc	Combin-ation (pre-am)	New Inc (after am)	Value impact $000
Nominal WACC (pre am), %	7.59	10.61	8.03		
New Inc nominal WACC, %				7.49	
Total economic capital, $000	37,061	5,239		42,300	
Contribution to economic capital	88%	12%		100%	
Cost of capital, $000	2,814	566	3,380	3,124	257
PV of financial synergies					**3,472**

Source Robert F Bruner's methodology, Burleigh Evatt estimates

Estimates of financial synergy enhancements arising from reduced risk are usually regarded with scepticism. This is because shareholders in companies are free to rearrange their investment portfolio weightings to modify the effect of specific risk and choose their own risk tolerance. This case is one of the rare instances where shareholders do not enjoy the freedom to select portfolio weights due to the nature of the Māori incorporation.

Conclusion

In this appendix we have presented the methodology and key information inputs used to prepare the valuations of AW Inc and M Inc and the new entity AM Inc.

Appendix B: Statements and declarations

Purpose	Burleigh Evatt has prepared this report at the instruction of the combined Committees of Management of Atihau-Whanganui Incorporation and Morikaunui Incorporation Limited, for the sole purpose of advising on the proposed amalgamation of the incorporations. This report should not be used for any other purpose. Burleigh Evatt consents to the distribution of this report to the shareholders of Atihau-Whanganui Inc and Morikaunui Inc and to the Registrar of the Māori Land Court.
Qualifications	A financial adviser retained to provide a fairness opinion should be someone who is independent of any of the parties to the transaction and who is possessed of the education, experience and expertise needed to analyse the financial terms of the proposed transaction using methods which are generally employed in the financial community. The Corporate Finance division of Burleigh Evatt, which provides advice on mergers, acquisitions, divestments, and restructurings, business appraisals and valuations, and strategic corporate advice, has prepared this Report. The director responsible for this report is Ian Dickson. He has considerable experience in business advisory matters.
Independence	We consider ourselves to be independent of Atihau-Whanganui Incorporation and Morikaunui Incorporation (having no disqualifying relationship in terms of the NZX Listing Rules, Rule 1.1.2, see www.nzx.com/regulation/listed_issuer/section_1.pdf). It is conventional for the independent financial adviser to provide an attestation on their independence and credential, as follows: • Our compensation is not contingent upon the content of our fairness opinion or the completion of the proposed amalgamation. We were paid on a time and materials basis at our standard rates for such work [and will be paid an additional fee if requested and we are prepared to deliver a fairness opinion]. The incorporations have agreed to reimburse Burleigh Evatt for its reasonable incidental and out-of-pocket expenses and to indemnify it against certain liabilities that may arise out of providing the fairness opinion (see below). • Prior to this engagement, Burleigh Evatt had not previously provided any advisory services to Atihau-Whanganui Inc and Morikaunui Inc. Furthermore, the report is not being provided in anticipation of the retention of Burleigh Evatt to provide services to the amalgamated incorporation in the future.
Reliance on assumptions	In forming our opinion, we have relied on assumptions and opinion expressed by management, about future events which by their nature, are not able to be independently verified.

Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

Disclaimer

The statements and opinions expressed in this report are based on information available as at the cut off date of the report.

In preparing this report, we have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Atihau-Whanganui Inc and Morikaunui Inc. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Our opinion has been arrived at based on economic, market and other conditions prevailing at the cut off date of this report. Such conditions may change significantly over relatively short periods of time.

We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the cut off date of the report, was not brought to our attention, or subsequently comes to light.

The statements and opinions expressed in this report have been made in good faith and on the basis that all relevant information for the purposes of preparing this report has been provided by management and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Neither Burleigh Evatt not its directors, officers, employees, consultants and agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

Advance drafts

Advance drafts of this report were provided to management and Committee of Management members, solely for the purpose of verifying factual matters contained in the report.

Minor changes were made to the drafting of the report as a result of the circulation of the draft report. However, there was no alteration to any part of the substance of this report, including the methodology, valuations or conclusions as a result of issuing these drafts.

Indemnity

Atihau-Whanganui Inc and Morikaunui Inc have agreed that to the extent permitted by law, they will indemnify Burleigh Evatt and its directors, officers, employees, consultants and agents in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report.

This indemnity will not apply in respect of any negligence, wilful misconduct or breach of law. Atihau-Whanganui Inc and Morikaunui Inc have also agreed to indemnify Burleigh Evatt and its directors, officers, employees and consultants for time incurred

and any costs in relation to any subsequent inquiry or proceeding initiated by any person.