

TUKIA NEWS

January 2010

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TUKIA GROUP

LAUNCHING COMMERCIAL ENTERPRISES

What is Tukia Group?

Tukia Group is a world-class commercial development company, created by and for the Central North Island Iwi Collective. Its purpose is to develop the commercial interests of the Collective and other iwi, by launching large, long-term, iwi-owned businesses.

Tukia uses its global connections to help iwi capture the full commercial potential of their assets. Tukia's international team has many years' experience in structuring profitable investment partnerships.

But what makes Tukia unique is its embodiment of Māori and CNI tikanga, and its focus on long-term investment and sustainability for future generations.

This newsletter is produced by Tukia Group. We welcome your feedback, comments, questions and suggestions. Please email them to us at newsletter@tukiagroup.com



“Tukia Group is a smart and cost-effective means for iwi to realise their commercial aspirations.”

— Lennie Johns, Chairman,
Tukia Group Board

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Tēnā koutou

and welcome to the first edition of Tukia News. This is a great way to kick off 2010 – a year which promises to be full of excitement and challenges.

Tukia Group was created in September 2009, and was given the immediate goal of implementing the three long-term commercial strategies that were developed in early 2009 by the CNI Iwi Collective. Realisation of these strategies will see the creation of large-scale commercial enterprises in forestry, geothermal energy and carbon farming.

On the forestry front, Tukia is currently putting in place a partnership company with the Harvard Management Company and the New Zealand Superfund, for the replant of the next rotation of trees at Kaingaroa. In the geothermal energy space, Tukia now has a Strategic Partnership Agreement in place with Mighty River Power, which is forming the basis of a number of joint geothermal initiatives, both domestically and overseas. With greater certainty around the future form of the New Zealand Emissions Trading Scheme, the carbon farming work programme has also been kicked off.

So, much work has been done, and much still remains to be done. The momentum which carried us through 2009, with the transfer of the CNI settlement assets and the creation of Tukia Group, looks certain to continue and to build throughout 2010.

For the Tukia team, every day is a reminder of the rewards of dedication and hard work, and a chance to relish the unique opportunities and challenges that we have been tasked with.

Warm regards,
Pelenato Sakalia, CEO,
Tukia Group

The Creation of Tukia

June 2008

Signing of the CNI
Forests Collective
Settlement



January 2009

CNI Discovery
commercial strategies
published



July 2009

Transfer of settlement
cash and forest lands
into CNI Iwi Holdings Ltd.



September 2009

Creation of Tukia Group,
to implement commercial
strategies and manage the
land held by CNI Iwi
Holdings Ltd.



Workstream Updates



Forestry Replant

Stage One of the work programme to develop a partnership company for the replant of the next rotation of trees at Kaingaroa was completed in November last year. This work included the development of high-level agreements with the Harvard Management Company and the New Zealand Superfund, on the details for the proposed partnership. It also involved detailed financial due diligence of the forestry and financial models that have been developed for the new company.

Stage Two commenced in December, and will continue through to the middle of February 2010. This stage involves preparing detailed strategic agreements, valuing the assets to be transferred, and optimising the structure of Tūkia shareholders' participation in the replant business.

Carbon Farming

In response to the unexpected deal between the National and Māori Parties on the New Zealand Emissions Trading Scheme, Tūkia has been working to safeguard the value of the Collective's allocation of NZUs (carbon credits) under the Deed of Settlement, and to identify the commercial options that the Collective is now uniquely positioned to develop.

The carbon farming work programme is now underway, and the initial assessment and strategy development phases have been completed.

Information on the opportunity to invest in the current rotation at Kaingaroa Forest is on page 8.



Geothermal Energy

Tukia Group recently signed a Strategic Partnership Agreement with Mighty River Power (MRP). This agreement establishes the basis for a strong, enduring and mutually supportive relationship, which will lead to the realisation of Tukia and MRPs' common vision: to participate with each other in a world-scale, New Zealand-based, geothermal energy company.

With the Strategic Partnership Agreement in place, Tukia and MRP have begun to jointly explore geothermal development opportunities, both within New Zealand and overseas. One of the first of these is the opportunity to invest in a US-based global developer of geothermal resources. Tukia has completed a preliminary assessment and is now proceeding with a detailed investigation into this opportunity.

Further information on investment in the Global Geothermal opportunity is on page 6.

Land Management

In addition to its role as a developer of commercial operating companies, Tukia has also been appointed Land Manager for the CNI settlement land that is held in trust by CNI Iwi Holdings Ltd.

A dedicated team has been established within Tukia to carry out this role, which also involves managing the Collective's Right of First Refusal (RFR) and Deferred Selection Procedure (DSP) mechanisms which were created as part of the Deed of Settlement.

The Global Geothermal Investment Opportunity

The first investment project being considered by Tukia Group under the auspices of the recently signed Strategic Partnership Agreement with Mighty River Power, is an opportunity to co-invest in a global geothermal development company. Within the next few months, Tukia will be going out to iwi to discuss this unique investment opportunity. Here's a preview of what's going to be on offer.

The current global drive to increase renewable energy generation has resulted in a large surge in *intermittent* generation capacity – produced by “unpredictable” power sources such as wind, solar and hydro. National power grid systems need to balance this surge in intermittent capacity with “predictable” base-load capacity. Fossil-fuelled capacity is one option for generating *base-load* capacity, but it is expensive and non-renewable. Geothermal power is in fact the only technically feasible renewable base-load power source that has sufficient capacity to meet the growing demand.

The company that Tukia is considering investing in is a major US-based global geothermal development and operations company. This target company has

a proven world-class team, with many years' experience in geothermal and related industries. In combination, the team members have been responsible for the development and operation of approximately 50% of the world's total geothermal production capacity, and they have gained access to quality resources and partners in multiple countries.

The target company's business model is based around the unique characteristics of geothermal power, and the resulting sharp increase in demand for geothermal energy that the future looks set to bring. It is a purely geothermal development business, seeking to identify and develop, or acquire, quality global geothermal assets. By pursuing a global spread of opportunities, it will diversify the risk of operation in a single market.





The target company's proposed geothermal projects include some very attractive geographies in terms of market and resource structure, including Chile, California, Germany, the US Basin and Range, and potentially Peru. Tukia's analysis to date suggests that this company possesses the human resources and experience base to hold an advantage over its competitors who have similar global strategies. As indigenous owners of world-class geothermal assets, there is significant potential for CNI iwi to add value to this company's activities, and to gain experience in geothermal development outside of New Zealand.

The existing project portfolio of the target company indicates the potential for an extremely attractive Internal Rate of Return. The principal risk of the enterprise lies in the fact that this

is an exploration and development exercise, and all resources are at early stages of development. However this risk profile can be managed through the use of appropriate management structures, stepped investment, and financial structuring.

Within the next few months, Tugia will be going out to iwi to discuss this investment opportunity, and to determine the appetite of each iwi for investment. CNI iwi who are members of Tugia will have the first option to invest. After that the opportunity will be extended to non-Tugia CNI iwi, then to other iwi, and then to other indigenous capital providers and third parties, to provide the required investment funds. A full investment prospectus and other detailed investment documentation will be prepared in due course.

Investment in Kaingaroa Forest

In December 2009, Tukia Group was presented with an opportunity to acquire a 19.98% stake in the current Kaingaroa forest rotation, from current owners Harvard Management Company (HMC) and the New Zealand Superfund (NZSF). The Tukia Group Board considered this investment opportunity carefully, and steps are now being taken to investigate it further. Here is an overview of the opportunity, and what will happen next.

HMC and the NZSF have confirmed that they are prepared to sell a 19.98% stake in the current Kaingaroa forest rotation (i.e. the trees that are currently growing on the Kaingaroa land) to Tukia Group as a unique purchaser.

In deciding to investigate this investment opportunity further, the Tukia Group Board has taken into account the fact that both the NZSF and HMC are currently reporting attractive annual returns from the estate. In addition, the estate is now reaching a point where harvest cash flow will increase over the rotation.

Acquiring a stake in the current Kaingaroa rotation would position Tukia in the forestry ownership business, as owners of a mature established forest



alongside HMC and the NZSF. This is an attractive position for CNI iwi, who have a long-term aspiration to extend their participation in the forestry value chain beyond their current land rental participation.

While this is clearly an exciting investment opportunity for Tukia and its shareholders, a robust and careful due diligence process must still be undertaken. Once this process is complete, Tukia Group will assess whether the opportunity is commercially and financially viable, and if it is satisfied, the next step will be for Tukia to go out to iwi in early 2010, to determine each iwi's appetite for investment.

The Push for Geothermal Energy

Lately we've been hearing a lot about geothermal energy, including how it's generated, and what it can do for us. But just what's behind the push for geothermal energy, and what is happening in other parts of the world?

US President Barack Obama has set an aspirational goal of achieving an 80 percent dependence on renewable energy nationwide by 2050. Although the United States is currently the world's leader in geothermal energy production, its geothermal generation capacity is less than 10% of its capacity for wind-generated power, indicating that the US geothermal industry is on the verge of an unprecedented expansion.

This strong growth in the US is being driven by a number of factors. Broad climate change concerns are clearly a key. A more specific driver, though, is the recently-introduced US production tax credit, which can account for a third of the cost of a project, and which was recently extended to the geothermal category for the first time. The tax break makes geothermal comparable in price, and thus competitive, to wind energy.



Another country making significant investment in geothermal energy is Iceland. Iceland is the only country in the world that runs on 99% renewable power, and 30% of that comes from geothermal (the rest is from hydroelectric).

Closer to home, Indonesia is set to release a new climate change policy which will establish a carbon tax, set up geothermal energy projects, and protect forests. The geothermal strategy is aimed at partially offsetting Indonesia's yearly 7% increase in energy demand. The plan includes a geothermal tariff, in which the Government subsidises the purchase of clean energy by electricity retailers.

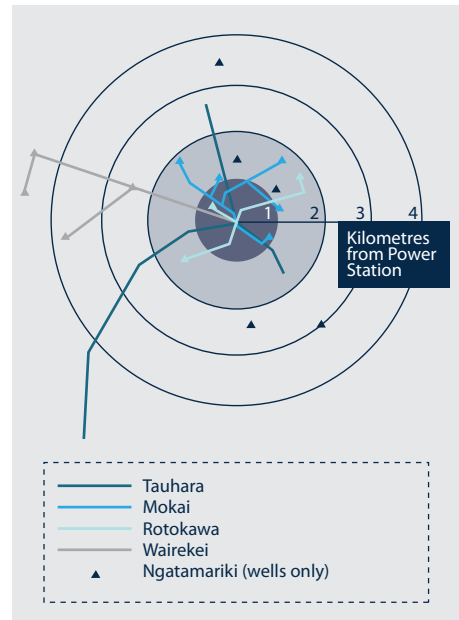
Generating Geothermal Energy

The production of geothermal energy is a high-risk and high-reward business. New Zealand has a number of very promising geothermal resources, yet little is generally known in this country about geothermal energy production. In this article we uncover some of the hidden issues faced by geothermal developers.



Exploration & development: Land area required

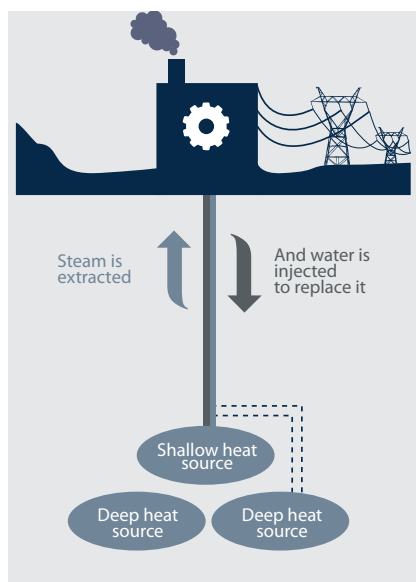
As part of the exploration and development phase, it is important to bear in mind that the size of a geothermal power station is just a small fraction of the land area that is required to develop a geothermal resource.



The typical cost for a prospect exploration programme is significant — between NZ\$10 million and NZ\$20 million, with each exploration well costing between NZ\$5 and NZ\$10m.

Production = Extraction + Injection

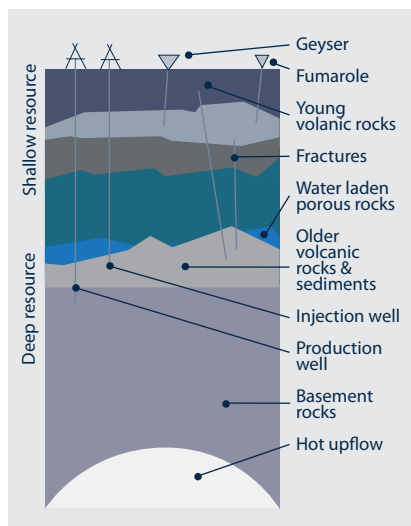
During the production phase, it is vital to find areas to re-inject geothermal fluids into that do not damage the resource. This injection process is the key to sustainable operations.



Regulators (e.g. Regional Authorities) have a strong preference for coherent, field-wide geothermal development. Sub-scale and fractional development projects are generally unable to gain resource consent.

Required resource characteristics

To be viable, a geothermal resource needs to have a number of key elements, including high temperature, water at depth, and porous rocks that are able to transport water. Taking shortcuts can lead to problems down the track — the use of ‘cheap’ shallow wells, at depths of less than 1,500m, will generally cause sustainability issues for the resource. Drilling is the only way to confirm the viability of the resource, as surface features are not necessarily connected to the production zones of deep resources.



At depths up to 3km below the surface, the best laid plans can and do go wrong. The most important ingredients for mitigating the risks are expertise and capital.

Changes to the Emissions Trading Scheme

Late last year, the Government and the Māori Party reached an agreement on amendments to be made to the New Zealand Emissions Trading Scheme (ETS). So how will the changes affect those in the Forestry industry?

One of the most significant changes is the introduction of a “transition phase”, which will operate until 31 December 2012. This transition phase will have a significant impact on the demand for emission units in the short term, with the imposition of:

- ◆ a 50% obligation (i.e. to surrender only one unit for every two tonnes of CO₂ emitted)
- ◆ a NZ\$25 fixed price option (whereby businesses can opt to pay the Government NZ\$25 instead of buying emission units from the market).

The transition phase and price cap of NZ\$25 will reduce demand, and therefore prices, for forestry carbon assets domestically, which is bad news for foresters. However these changes also have the potential to make international



trading easier, particularly with international trading banks, businesses in Japan and the United States, and governments in Europe.

Other amendments relevant to foresters include:

- ◆ changes to deforestation liabilities for iwi owners of pre-1990 forests
- ◆ an agreement for iwi to enter into contracts to plant forests on marginal Department of Conservation or other Crown-owned land, including an afforestation fund to cover the cost of the planting
- ◆ measures to improve outcomes of the ETS for Māori businesses in fishing, farming and forestry.

For more information go to:

<http://www.maf.govt.nz/sustainable-forestry/ets/changes-to-ets-for-forestry.pdf>

Upcoming Events

February 2010

- ◆ Tukia website live

March 2010

- ◆ Presentation of Global Geothermal investment opportunity
- ◆ Update on Kaingaroa Forest investment opportunity
- ◆ Presentation of Tukia Group Carbon Farming Strategy



