

Mid Year report

This mid-year report is provided to shareholders as the Directors undertook to do at last year's AGM.

There has been significant activity since the last AGM, largely resulting from the successful conclusion of protracted negotiations with New Zealand Transport Agency, formerly Transit New Zealand (NZTA) over the acquisition of land owned by the Silverwood Land Partnership (SLP) for the Transmission Gully motorway.

Transmission Gully

After some 14 years of frustrating and inconclusive negotiations the change of government resulted in a more positive approach from NZTA.

There have been intensive negotiations over seven months between SLP Directors (led by Peter Tiedemann) and NZTA, together with respective valuers, engineers, town planners, and lawyers, over the land owned by SLP and designated together with severances by the government for the Transmission Gully motorway project.

This has culminated in an agreement being reached in June 2010 for settlement of the claim.

Land Taken 54.81 hectares

Gross settlement proceeds **\$7,250,000 (plus GST)**

This is an excellent result made possible by the Directors efforts in maximizing the subdivisional potential. It is interesting to note that the previous offer from NZTA, some 7 years ago, was, less than 5% of what has now been accepted by SLP.

As part of the compensation, SLP expects to recover further costs which will be quantified at a later date. These may include some items which have been paid by Silverwood in earlier years and will therefore be a net recovery over and above the gross settlement proceeds.

The transaction has facilitated repayment of the two loans advanced to SLP for working capital purposes by Silverwood Forest Partnership (SFP) and Whitby Corporation Ltd respectively.

Silverwood Land Partnership

The Directors of SLP have also resolved to make a payment to each SLP Land Unit holders of **\$500 per unit**.

Whitby Corporation Limited (Whitby) has a 50% equity share of the SLP units or 524 units and its payment will therefore will be **\$262,000**.

As stated above, the loan made last year by Whitby to SLP (and raised at last year's AGM), to provide short term working capital until compensation from NZTA was received, has been fully repaid.

The total loan was for \$100,000 and was advanced in 2 tranches in December 2009 and January 2010. The loans attracted interest of 14% pa fixed for a year and were renewable for 1 year if required. Security for the loans was by an agreement to mortgage the land in Lots 5 and 6 of the subdivision of the SLP land.

A total amount of **\$114,000** has now been paid into Whitby's National Bank account. The loan was repaid earlier than the 12 months provided for and the return on the loan has risen to approximately **28% pa**.

From the balance of the compensation received after repayment of the loans by Whitby and Silverwood Forest Partnership, some moneys will be retained by SLP for working capital purposes. It is anticipated this will suffice through to the time when section sales provide sufficient ongoing returns to obviate the need for further working capital.

The majority of the settlement proceeds will be used to reduce SLP's debt with its JV partner. To date SLP had contributed only land to the JV and its JV partners had contributed dollar loan support in bringing the first 150 sections to the market. The JV loan is in the order of \$18 million and, after our payment made in early July, a significant part of this loan is now owed to SLP and the part owed to our JV partners has become less by the same amount. The loan currently earns interest at a rate of 11%. Section sales are continuing slowly and an update will be given at the AGM. The downturn in the economy has hit section sales nationwide.

The 6 Lot subdivision titles are now through. JV Directors are now reassessing options for Lot 1 together with development or sale of the balance of the JV land. The 2005-2015 exit plan for 10 years is on target.

Silverwood Forest Partnership (SFP)

As stated, the loan to SLP of approximately \$1.2 million including interest has been repaid.

The Titaramonga Forestry right has been sold for \$200,000 and the purchaser has paid 50% with the balance due before the end of January 2011

The loan to SLP and the Titaramonga Forest Rights were the only two assets SFP had. Both are in the process of being cashed in and this allows SFP Directors to wind up the forest partnership as projected last year.

The funds available for payout before tax will be around \$6000 per unit but this cannot be accurately determined until all costs are known and the partnership is formally wound up. Whitby has 24 units in Silverwood Forest Partnership and, subject to the above, will receive around **\$148,000**.

Summary

As a result of the successful conclusion of negotiations with NZTA (and as set out above), Whitby will benefit, less any tax consideration, by the following amounts

Repayment of Loan to SLP	\$114,000
Capital return to SLP Unit holders (50% held by Whitby Corporation Ltd)	\$262,000
Expected payment from winding up SFP	\$148,000
Balance of funds in various Whitby accounts	\$104,000
Total Funds available	\$628,000
Working capital required at approximately \$20,000pa x 6 years	\$120,000
Contingency amount to be held	\$100,000
Projected available funds to pay to shareholders	\$408,000

It is anticipated a payment of the above magnitude (less any tax due) will be made to shareholders as soon as SFP has been wound up and well before the next AGM. There are 2,972,184 shares on issue. In the mean time the \$114,000 is back on term deposit in our National Bank account.

There will be some tax consequences as a result of the payment to Whitby but the company is carrying forward tax losses. As at 2009, these were \$1,612,712. This suggests it remains beneficial to maintain Whitby as a continuing entity until these losses are fully utilized as these losses will provide shareholders with future tax free returns.

Shareholder Complaint

We need to inform shareholders of a complaint made by one Whitby shareholder regarding the Directors actions at the last AGM, and specifically about the Directors' decision to make the loan from Whitby to SLP. This was discussed at last year's AGM.

There has been correspondence between the shareholder's legal representative, our legal representative and the Company secretary. The complaint also questioned whether the Directors had acted in a professional and lawful way and in compliance with Company law.

We believe we should provide a brief summary of both the complaint and our answers so that shareholders can raise any issues at the next AGM if they so wish.

Queries were asked as to the Directors ability to make the loan of \$100,000 to SLP and the failure to note objections or vote on the matter. The Directors considered that the loan was necessary in the interests of the company (which had 50% of the units in SLP), the terms were reasonable, it provided a good returns with adequate security and, from general comments at the AGM, believed the shareholders agreed with that. Prior to making the loan, the directors had legal advice that they had the right to make the loan as it was not a major transaction requiring shareholder approval.

The Directors deferred making the loan by 4 weeks in order that they could inform shareholders prior to the event. The loan documentation was drawn up and signed by the 2 non-Whitby Directors of SLP.

A question was raised as to why the funds required by SLP were not procured from other unit holders in Silverwood or from other sources. This was addressed at the AGM. Whitby, as 50% unit holder in SLP, was the only entity which had ready funds and could provide a loan within the short timeframe. Approaching all the other unit holders would have involved excessive time and cost, may have required a short form prospectus and there was no guarantee that all unit -holders would have participated. Other finance options were considered and rejected as impracticable or too costly.

Concern was expressed about an alleged failure to provide evidence of the actual financial position of SLP. The financial position of SLP has been addressed previous AGMs. SLP has no income source until sections sales generate sufficient income to repay loans from the JV partner and provide working capital for further development.

Significant costs were necessarily incurred in preparing for the negotiations with NZTA on the Transmission Gully claims and the current recession, resulting in slow sales, required the Directors to provide short term finance until moneys were received in settlement of Transmission Gully claims.

Other issues raised included a request to provide a list of unit holders in SLP, whether the Directors' interests had been properly disclosed, a copy of the loan documentation and the projected source of repayment, whether the Directors' fees were excessive and an alleged failure to keep shareholders informed over the actual management of the company. We have addressed these matters direct with the shareholder's legal representative but they are open to discussion, if raised, at the next AGM.

The Directors considered they have acted properly and in the best interests of the shareholders. The fact that the loan facilitated the successful outcome of negotiations with NZTA and provided the company with a very handsome return should, we believe, put an end to further complaints on the procedures and integrity of the Directors.

Whilst the Directors acknowledge there may have been frustration by some shareholders by what they perceive at the lack of progress and returns, shareholders need to appreciate that at the end of the day, the company's business is now that of land development and returns are dictated by the vagaries of the market.

Finally, the Directors need to stress that some information remains commercially sensitive and they would not be acting responsibly to divulge it to shareholders. What information falls into that category will, of course, vary over time. The directors are happy to provide such further information as may be relevant to shareholders as and when it ceases to be commercially sensitive.

Tony Loveday
Chairman Whitby Corporation