STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Land Division
Honolulu, Hawaii 96813

December 8, 2017

Ref. No.: GLS-4946
RPS-7256

Board of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

KAUAI

After-the-Fact Consent to Merger of Integrated Aquaculture Hawaii, LLC with and into Integrated Aquaculture International, LLC; Consent to 51% Stock Transfer in Sunrise Capital, Inc., Lessee Under General Lease No. S-4946, and Permittee under Revocable Permit No. S-7256, from Sunrise Capital, Inc. and Integrated Aquaculture International, LLC (via mesne transfers), Transferors, to Hendrix Genetics USA LLC, Transferee, Hanapepe, Waimea (Kona), Kauai, Tax Map Keys: (4) 1-9-010:037 (lease) and (4) 1-9-010:034, 035, 038, and 1-9-011:007 (permit).

APPLICANTS:

Integrated Aquaculture Hawaii, LLC, Nebraska limited liability company, as merged entity; Sunrise Capital, Inc., a Hawaii corporation, as Lessee/Permittee; Integrated Aquaculture International, LLC, a Nebraska limited liability company, as Transferor; and Hendrix Genetics USA LLC, a Delaware limited liability company, as Transferee.

LEGAL REFERENCE:

Section 171-36(a)(5), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Hanapepe Town Lots, Hanapepe, Waimea (Kona), Kauai, identified by Tax Map Key: (4) 1-9-010:037 (lease) and (4) 1-9-010:034, 035, 038, and 1-9-011:007 (permit), as shown on the attached maps/photos labeled Exhibit 1.

AREA/TRUST LAND STATUS/CHARACTER OF USE:

	Land Area	Trust Status	DHHL Entitlement	Character of Use
GL S-4946	16,855 sf (0.387 ac)	5(b)	No	Wholesale/retail fish market operation.
RP S-7256	0.825 ac	5(b)	No	Parking, storage and/or access purposes.

LEASE/PERMIT TERMS AND RENTAL:

	Terms	Rental
GL S-4946	Fifteen years, commencing on 1/18/1985 and expiring on 1/17/2000. Extended 24years, expiring on 1/17/ 2024. Last rental reopening occurred on 1/18/2014; next rental reopening is scheduled for 1/18/2021. Total term with extension is 39 years.	$17,040 per annum payable in advance.
RP S-7256	Month-to-month basis for a period of one year from the commencement date of 2/1/2001. Currently extended through 12/31/2018, and may be extended by action of the BLNR for additional one-year periods.	$589 per month ($7,068 per year).

CONSIDERATION:

Gross consideration for transaction: $12,450,000
Net consideration for lease assignment: ($189,791)

RECOMMENDED PREMIUM FOR ASSIGNMENT OF LEASE:

None. Refer to Exhibit 5 attached.

DCCA VERIFICATION:

SUNRISE CAPITAL, INC.:
Place of business registration confirmed: YES X NO
Registered business name confirmed: YES X NO
Good standing confirmed: YES X NO

As stockholders of Lessee/Permittee Sunrise Capital, Inc., Integrated Aquaculture Hawaii, LLC, Integrated Aquaculture International, LLC, and (if approved by the Board) Hendrix Genetics USA LLC, are not required to register separately with the Department of Commerce and Consumer Affairs.

REMARKS:

General Lease No. S-4946 (GL S-4946), and Revocable Permit No. S-7256 (RP S-7256) were previously held by Controlled Environment Aquaculture Technology, Inc. (CeaTech). CeaTech and its affiliated entities filed voluntary bankruptcy petitions under the Bankruptcy Code on March 22, 2005. Thereafter, pursuant to an Asset Purchase Agreement, dated June 2005, as approved by the Bankruptcy Court, Sunrise Capital, Inc. (Sunrise) acquired the operating assets of the CeaTech entities, including the rights under

GL S-4946 and RP S-7256.

The assignment of GL S-4946 and RP S-7256 to Sunrise was approved by the Board of Land and Natural Resources (Board) at its meeting on July 22, 2005, Item D-2, and formal Board consents were prepared and executed in connection therewith.[1] As of June 30, 2006, Sunrise Capital and another aquaculture company (named Kona Bay Marine Resources, Inc.) were merged in a transaction that was also formally approved and consented to by the Board at its meeting of June 23, 2006, Item D-10.

At its meeting of August 28, 2009, agenda Item D-2, the Board consented to a stock transfer in Sunrise from Sunrise to Integrated Aquaculture Hawaii, LLC (IAH). On August 5, 2016, IAH was merged with and into Integrated Aquaculture International, LLC (IAI), with IAI being the surviving entity. Prior to the merger, IAH was the wholly owned subsidiary of IAI. By oversight, Sunrise did not seek prior Board approval for this merger.

Sunrise develops and produces special genetic lines of specific-pathogen-free (SPF) Pacific white shrimp for sale as broodstock to shrimp growers around the world (mostly in Asia). Sunrise owns and operates extensive aquaculture facilities on the Island of Kauai and is the principal tenant at the Department of Agriculture's (DOA) Kekaha Agricultural Park where the company's farm and aquaculture ponds are located. General Lease No. S-5367 for the hatchery facility was transferred by the Board to DOA by Executive Order No. 4259 dated January 6, 2009 pursuant to Act 90 Session Laws of Hawaii 2003. Sunrise holds a 20-year license agreement from the Agribusiness Development Corporation (ADC) for expansion of the Sunrise's aquaculture operations. The permit for the operation and maintenance of the existing water transportation system and the taking of water from Kokee and Kekaha ditches was transferred from DLNR to ADC. Sunrise also leases the premises under GL S-4946 and RP S-7256 from the Board for the processing plant and various parking/storage facilities in Hanapepe.

By letters dated August 8 and November 15, 2017 Stephen N. Gelber, Esq. on behalf of Sunrise, requested the Board's consent to the sale of 51% of the shares of stock and control of Sunrise from Sunrise and IAI (via mesne transfers) to Hendrix Genetics USA LLC (Hendrix).[2] Staff has reviewed the Securities Purchase and Participation Agreement

[1] From discussions with deputies attorney general regarding other revocable permits the Board has issued, staff understands that because of the way the revocable permits are drafted, a transfer of an ownership interest in a permittee that is a business entity (even transfer of a 100% interest) may not require Board approval. As a result, it is not clear whether the Department of the Attorney General will prepare a consent instrument for the Chairperson's signature regarding the stock transfer in Sunrise. Staff includes a specific recommendation for consent as to Revocable Permit S-7256 as a precaution.

[2] The stock transfer is rather complex involving a conversion of Sunrise stock, a liquidation of IAI and distribution of shares to its members, some of whom will then transfer their shares to Hendrix, and also involves a new stock issuance in Sunrise to Hendrix so that Hendrix ultimately ends up with a 51% ownership interest in Sunrise. These various steps are to be processed in rapid sequence so that none of the interim stockholders who are selling to Hendrix will hold their shares for a significant period of time.

between Sunrise, IAI, and others, an Acknowledgment and Confirmation of Deemed Assignment of Leases upon Sale of Stock, State of Hawaii and County of Kauai tax clearance certificates for Sunrise, background information on Hendrix and its principals establishing that Hendrix is qualified to acquire a controlling interest in Sunrise, and additional supporting information. Mr. Gelber's letters explain that Hendrix "is a global leader in genetic-marker ad other technologies involved in the breeding of multiple animal species (includes turkeys, fowls, swine, salmon, trout, etc.) that are marketed to producers (turkey farmers, aqua-farmers, et al.) for food production." Mr. Gelber additionally explains that Sunrise's operations on the premises of GL S-4946 and RP S-7256 are secondary or incidental to the breeding operation taking place on other lands it has on Kauai, and that the component of Sunrise's operations on GL S-4946 and RP S-7256 was not Hendrix's principal focus in acquiring a stock interest in Sunrise.

General Lease No. S-4946, Condition 13. Assignments, etc. states as follows:

> The Lessee shall not transfer, assign, or permit any other person to occupy or use the premises or any portion or transfer or assign this lease or any interest, either voluntarily or by operation of law, except by way of devise, bequest, or intestate succession, and any transfer or assignment made shall be null and void; provided that with the prior written approval of the Board the assignment and transfer of this lease or any portion may be made if (1) it contains the personal residence of the Lessee; (2) in the case of commercial, industrial, hotel, resort, apartment and other business uses, the Lessee was required to put in substantial building improvements; (3) the Lessee becomes mentally or physically disabled; (4) extreme economic hardship is demonstrated to the satisfaction of the Lessor; or (5) it is to the corporate successor of the Lessee; provided, further, that prior to the approval of any assignment of lease, the Board shall have the right to review and approve the consideration paid by the Assignee and may condition its consent to the assignment of the lease on payment by the Lessee of a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the straight-line depreciated cost of improvements and trade fixtures being transferred to the Assignee pursuant to the Assignment of Lease Evaluation Policy adopted by the Board on December 15, 1989, as amended, a copy of which is attached hereto as Exhibit "A".[3] The premium on any subsequent assignments shall be based on the difference in the selling and purchase price plus the straight-line depreciated cost of any improvements constructed by the then Assignor, pursuant to the above-mentioned

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As part of the transaction, Hendrix is also acquiring IAI's interest in a Malaysian company known as iAqua (Malaysia) Sdn. Bhd.

[3] Based on a review of the file, there is no Exhibit "A" attached to GL S-4946. Staff has attached the standard Assignment of Lease Evaluation Policy hereto as Exhibit 2.

> Evaluation Policy.
>
> With respect to state agricultural leases, in the event of foreclosure or sale, the above-described premium shall be assessed only after the encumbrances of record and any other advances made by the holders of a security interest are paid.
>
> If the Lessee is a partnership, joint venture or corporation, the sale or transfer of 20% or more of ownership shall be deemed an assignment for purposes of this paragraph and subject to the right of the Lessor to impose the foregoing premium.

At that time the Board consented to the prior stock transfer on August 28, 2009, staff calculated that there was no lease assignment premium due as a result of the transaction. See Exhibit 3 attached. In the current transaction, Hendrix will pay $12,450,000 for the 51% interest in Sunrise, but is allocating only $703,209 of that amount to the subject lease and revocable permit. Sunrise conducted its own assignment of lease premium analysis for the transaction attached as Exhibit 4, indicating no State participation in the consideration paid for the assignment. The Sunrise analysis allocates no value to the existing improvements on the lease. The Assignment of Lease Evaluation Policy as applied to situations where a previous assignment has already occurred requires a comparison of the prior purchase price with the current sales price, adjusted for inflation and depreciation. Doing so nevertheless results in a determination of no State participation in the assignment consideration. See Exhibit 5 attached. Accordingly, staff is not recommending that the State receive any portion of the assignment consideration in this transaction.[4]

Hendrix has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

The last rental reopening was on 1/18/2014. The next rental reopening is scheduled for 1/18/2021. There are no outstanding rental issues at this time. As a housekeeping matter, staff is including a recommendation below for the Board's after-the-fact consent to the merger between IAH and its parent company IAI that occurred on August 5, 2016.

RECOMMENDATION: That the Board:

A. Consent after-the-fact to the merger of Integrated Aquaculture Hawaii, LLC with and into Integrated Aquaculture International, LLC, with Integrated Aquaculture International,

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[4] Land Division recently procured the services of a financial consultant and is providing copies of Sunrise's lease assignment application and supporting materials to the consultant for evaluation. Staff will share the any comments from the consultant on the premium analysis, assuming timely receipt prior to the Board meeting.

LLC being the surviving entity, subject to the terms and conditions cited above, and further subject to the following:

1. The standard terms and conditions of the most current consent to merger form, as may be amended from time to time;

2. Review and approval by the Department of the Attorney General; and

3. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

B. Consent to the transfer of 51% of the stock of Sunrise Capital, Inc., Lessee, under General Lease No. S-4946 and Permittee under Revocable Permit No. S-7256, from Sunrise Capital, Inc. and Integrated Aquaculture International, LLC (via mesne transfers), Transferors, to Hendrix Genetics USA LLC, Transferee, subject to the terms and conditions cited above, and further subject to the following:

1. The standard terms and conditions of the most current consent to assignment form, as may be modified to reflect the Land Board's consent to the stock transfer;

2. Review and approval by the Department of the Attorney General; and

3. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

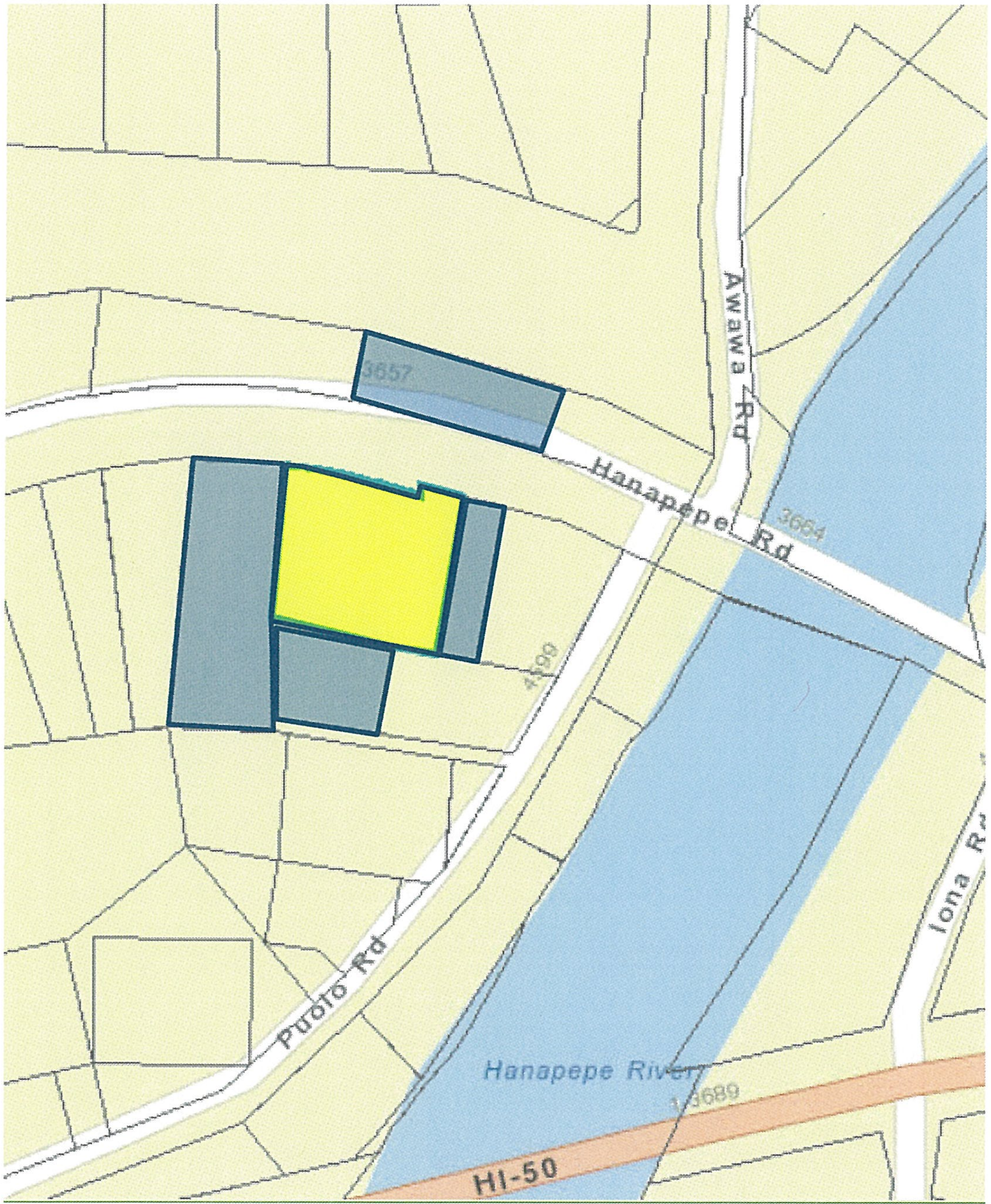
Wesley T. Matsunaga
District Land Agent

APPROVED FOR SUBMITTAL:

Suzanne D. Case, Chairperson

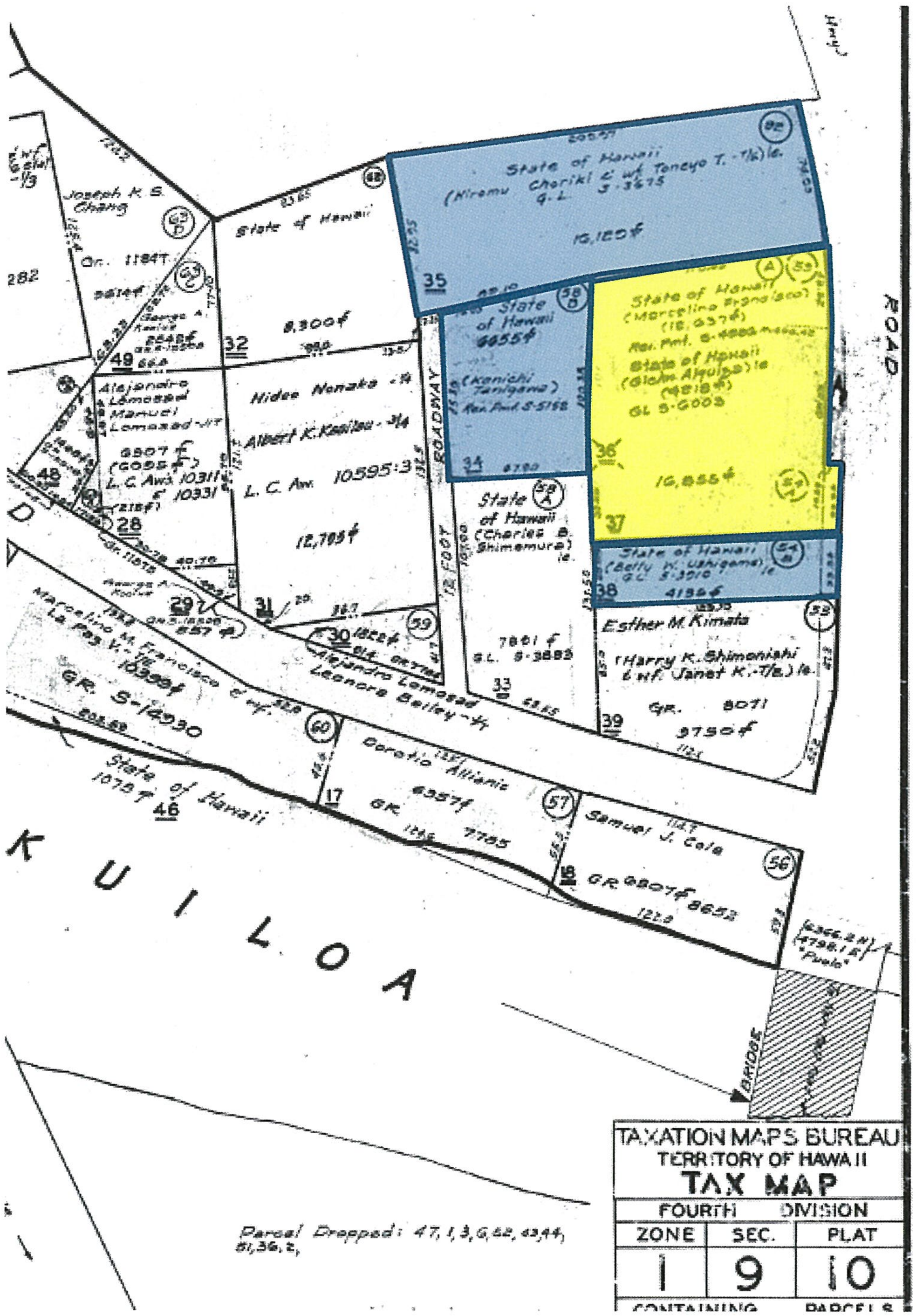
Hanapepe, Kauai. Premises of General Lease No. S-4946, TMK: (4) 1-9-010:037, shown in blue border. Premises of Revocable Permit No. S-7256 are in same vicinity. See following location maps for more information.

EXHIBIT 1



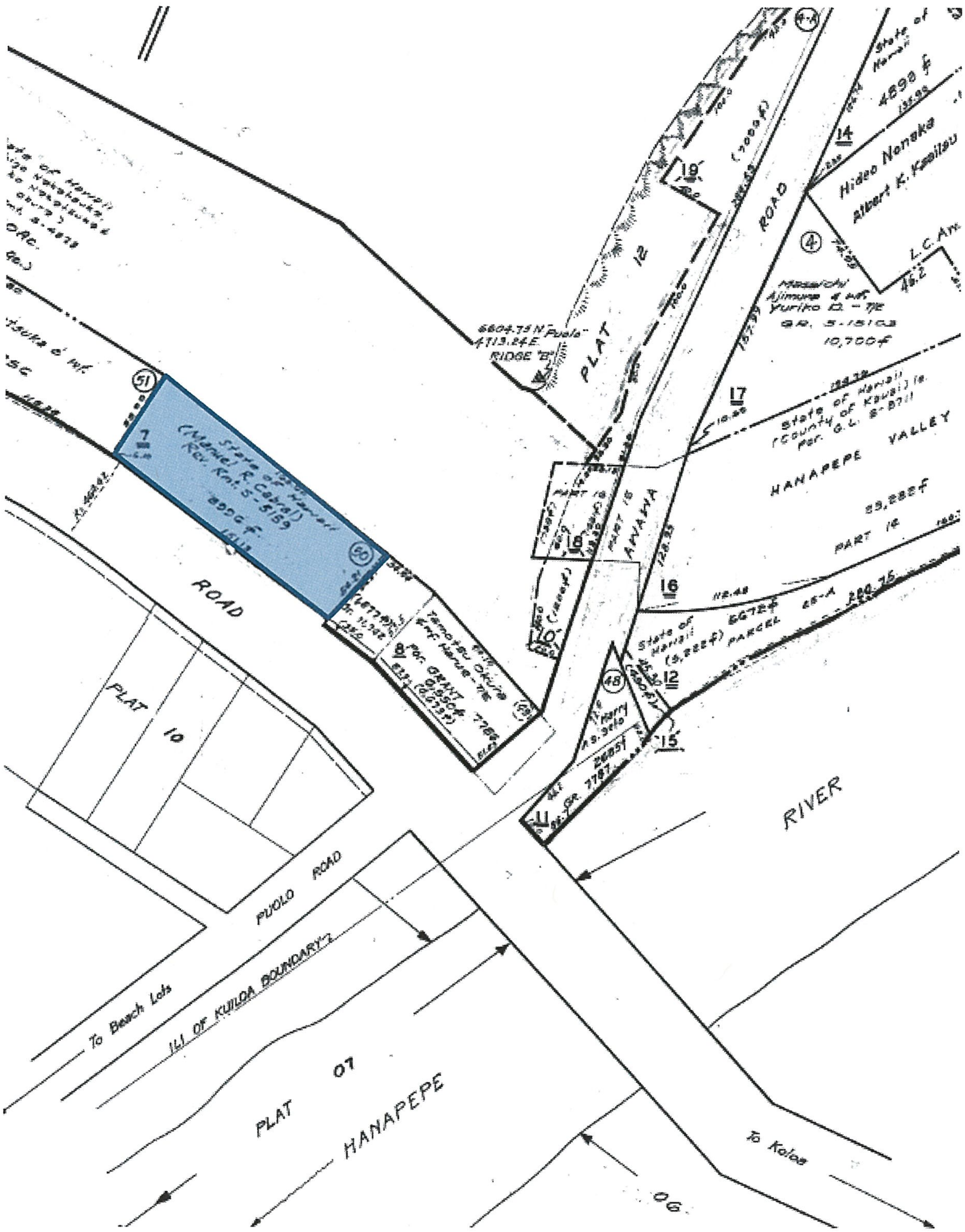
General Lease No. S-4946 Parcel:

Revocable Permit No. S-7256 Parcels:

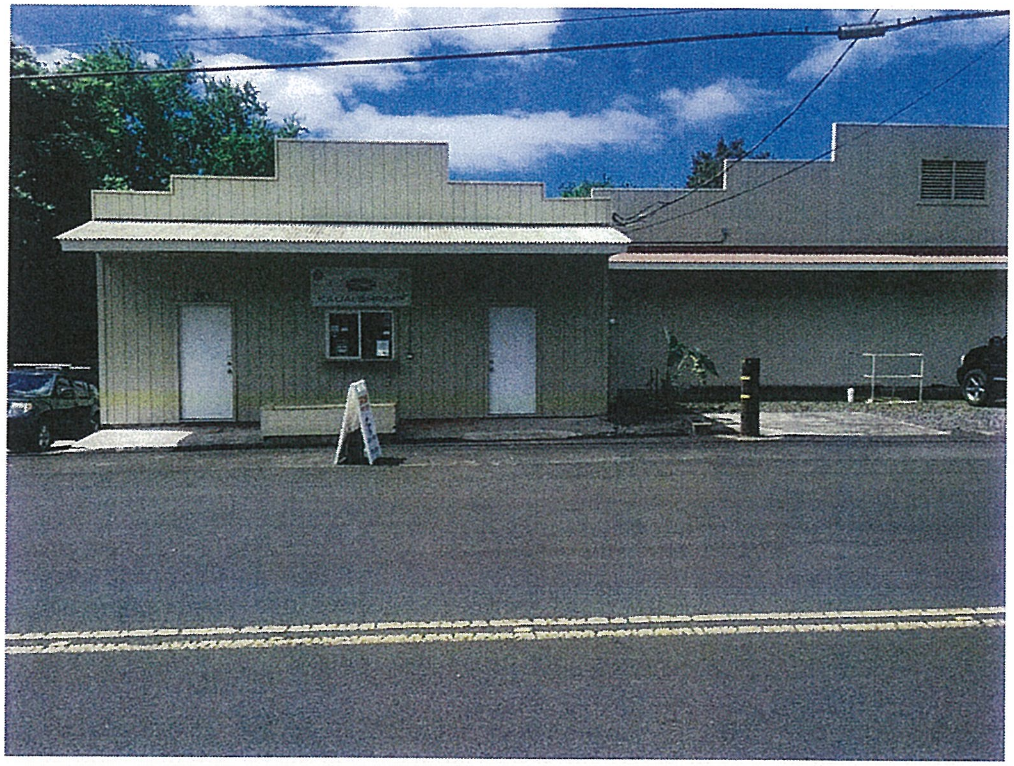


General Lease No. S-4946 Parcel:

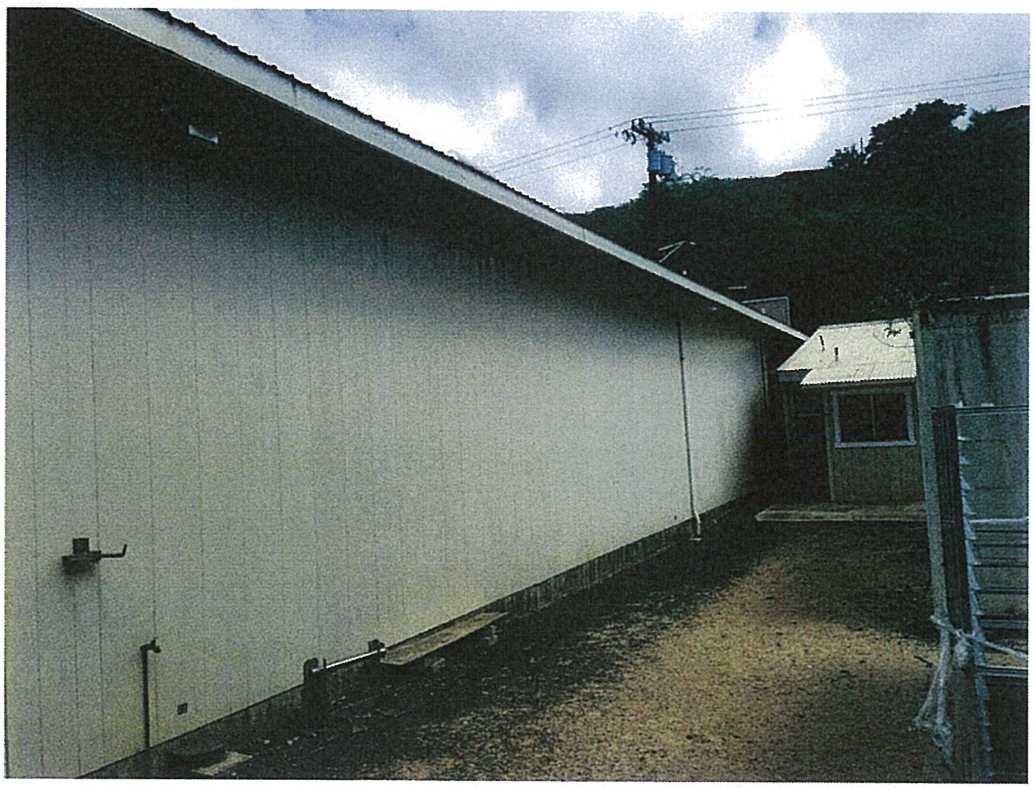
Revocable Permit No. S-7256 Parcels:



Revocable Permit No. S-7256 Parcel:



Leasehold improvements on premises of GL S-4946



Leasehold improvements on premises of GL S-4946

ASSIGNMENT OF LEASE EVALUATION POLICY

1. Enabling Statute.

Act 104, effective May 24, 1989, amended Chapter 171-36(a)(5) to read in part:

"... provided further that prior to the approval of any assignment of lease, the board shall have the right to review and approve the consideration to be paid by the assignee and may condition its consent to the assignment of the lease on payment by the lessee of a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee;" (revision underlined)

2. Qualifying Leases.

This policy shall be applicable to the subject lease.

3. Prior Approval.

Prior to giving its consent to an assignment, DLNR must receive (i) the name, legal composition and address of any proposed assignee, (ii) a complete copy of the purchase agreement and the proposed assignment agreement, including the total consideration to be paid by the assignee for the assignment whether by cash, credit or otherwise, and (iii) the best available financial statement or balance sheet no older than 1 year prior to date of purchase agreement of the proposed assignee or any other such statement, audited or certified as correct by a financial officer of the proposed assignee.

Assignments of lease shall not be entered into until the Attorney General has reviewed the proposed assignment and the Land Board have given their approval. Such assignments shall be entertained only if they meet the criteria set forth in Section 171-36(a)(5), HRS.

4. Qualifications of Assignee.

If qualification was required of a lessee as a pre-condition of the lease, the prospective assignee must also be qualified to assume the lease.

EXHIBIT 2

5. Consideration to be Paid.

Prior to review by the Attorney General and approval by the Land Board, the lessee (assignor) must present with written evidence of the consideration to be paid by the assignee and any other cost data that the state may require.

6. Payment of Premium.

The act permits the state to receive from the lessee (assignor) a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The value of the inventory of merchandise and any other tangible assets in the sale of a business shall be deducted from the consideration paid. The appropriate cost index is then applied to determine the adjusted depreciated cost.

All lessees shall be required to furnish the state with the actual costs of construction of all improvements and renovations within 30 calendar days after its completion as well as the purchase costs of all trade fixtures acquired for the lessee's operation on the premises within 30 calendar days after their purchase. Lessees shall be required to furnish evidence of the actual costs by copy of the construction contract, receipts or otherwise. Lessees shall also be required to furnish an inventory of all personal property placed on the premises. Records of all costs incurred by the lessee for construction of improvements or renovations as well as trade fixtures submitted by the lessee shall be maintained in the lease file and shall include the Construction Cost Index for Apartments, Hotels, Office Buildings (CCI) and the Honolulu Consumer Price Index for All Urban Consumers (CPI) as published by the U.S. Department of Labor, Bureau of Labor Statistics for the year construction is completed.

The replacement cost for improvements or renovations is calculated by using the CCI for the evaluation year divided by the CCI for the year in which the improvements or renovations were completed (base year). The result is then multiplied by the original cost of the improvements or renovations. For trade fixtures, the cost is similarly calculated by using the CPI for the purchase year (base year) and the evaluation year.

Depreciation of improvements and trade fixtures will be

EXHIBIT 2

determined on a straight line basis. Depreciation of improvements or renovations will be determined in the same proportion that the expired term of the improvements or renovations bear to the whole term. The whole term will be from the date the construction of the improvements or renovations are completed until the termination date of the lease. Depreciation of trade fixtures will be determined in the same manner, except that the whole term will be the anticipated life of the trade fixture.

The premium will be a maximum of 50% of the excess. The percentage will decrease by 5% after every 5 years of the term has elapsed in accordance with Schedule C. The sliding scale will encourage long term occupancy and prevent speculation as well as recognize the investment, effort, and risk of the lessee.

In cases where the lessee is unable to furnish the Department of Land and Natural Resources with evidence of the actual cost of construction of improvements because the lessee has performed the work itself, the State may determine the cost or the lessee shall have the option of paying for an appraiser, to be selected by the Department of Land and Natural Resources, to determine what the improvements would have cost if the labor had been performed by a third party rather than the lessee. The lessee shall exercise its option by giving written notice to the lessor within thirty (30) calendar days after completion of construction of the improvements. If the lessee fails to exercise its option within this period, the lessor shall have the right to determine the cost of the improvements.

Schedule D attached provides a typical example of the evaluation calculations using Schedule A to calculate the replacement cost for improvements or renovations and depreciation, Schedule B to calculate the cost and depreciation for trade fixtures, and Schedule C to obtain the premium percentage.

7. Non-qualifying Deductions.

The statute only recognizes tangible items. Intangibles such as "goodwill", business name recognition, etc., are <u>not</u> deductible.

8. Subsequent Assignments.

If the consideration for any subsequent assignment includes

EXHIBIT 2

the purchase of existing tenant owned improvements, the evaluation will be conducted in a similar manner as the first assignment. An example is shown on Schedule E.

Using Schedule E, the consideration the assignor paid less included inventory and any premiums will be used to obtain the adjusted depreciated cost of improvements and trade fixtures. Also, the Base Year is redefined to be the date the assignor received the Consent of the Board to occupy the premises. The holding period (redefined Base Year to assignment date), or actual occupancy of the assignor, is used in place of the "expired term" when calculating depreciation. Depreciation will be calculated by dividing the holding period by the whole term of the lease (The whole term will remain unchanged).

The change in the CCI will be reflected by comparing the CCI for the redefined base year to the most current CCI.

The holding period will be the basis for determining the appropriate premium percentage. Subtracting the included inventory and any premiums from the consideration the assignor paid will result in a reassessment of the market value of the improvements. If additional improvements were constructed by the assignor, they will be treated in the same manner as improvements constructed by an original lessee.

The excess of subtracting the adjusted depreciated consideration the assignor paid and the adjusted depreciated cost of additional improvements, if any, from the consideration the assignor received will be used against the appropriate premium percentage to determine the amount payable to the state.

9. Rights of Holders of Security Interest-Agricultural Leases only.

   In the event of foreclosure or sale, the premium, if any, shall be assessed only after the encumbrances of record and any other advances made by the holder of a security interest are paid.

10. When state-owned improvements are included in the leased premises, improvement renovation requirements shall be recognized as being tenant-owned improvements for evaluation in the policy.

In other words, the total expenditure of the lessee to fulfill the requirement would be treated as though a new improvement was constructed.

SCHEDULE A. Adjusted Depreciated Cost of Improvements or Renovations

1. Adjusted Cost of Improvements or Renovations.

   Multiply the actual cost of the improvements or renovations by the most recent U.S. Construction Cost Index for Apartments, Hotels, Office Buildings (CCI)* and divide the result by the CCI of the year construction was completed (base year) to get the adjusted cost of improvements or renovations.

2. Depreciation

   Determine the depreciation percentage on a straight-line basis by dividing the expired term of the improvements or renovations by the whole term of the improvements or renovations, the whole term beginning on the date the improvements or renovations are completed to the expiration date of the lease. Multiply the adjusted cost of the improvements or renovations by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Improvements or Renovations

   Subtract the depreciation from the adjusted cost of improvements or renovations. The balance is the depreciated cost of improvements or renovations.

*As published by the U.S. Department of Labor, Bureau of Labor Statistics

Example

Actual cost:	$500,000
CCI (most recent):	121.1
CCI (base year):	102.3
Expired term:	57 mos.
Whole term:	408 mos.

1. Adjusted Cost of Improvements or Renovations

   $$\text{Actual Cost X } \frac{\text{CCI (most recent)}}{\text{CCI (base year)}}$$

   $500,000 X <u>121.1</u> = $591,887

Document1

EXHIBIT 2

102.3

2. Depreciation

$$\$591,887 \times \frac{57 \text{ mos.}}{408 \text{ mos.}} = \$82,690$$

3. Adjusted Depreciated Cost of Improvements or Renovations
$591,887 - $82,690 = <u>$509,197</u>

<u>SCHEDULE B.</u> <u>Adjusted Depreciated Cost of Trade Fixtures</u>

1. Adjusted Cost of Trade Fixture.

Multiply the actual cost of the trade fixture by the most recent Honolulu Consumer Price Index for All Urban Consumers (CPI)* and divide the result by the CPI of the year in which the purchase was made (base year).

2. Depreciation.

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the trade fixture by its anticipated life. Multiply the adjusted cost of the trade fixture by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Trade Fixtures.

Subtract the depreciation from the adjusted cost of the trade fixture. The balance is the depreciated cost of the trade fixture.

*As published by the U.S. Department of Labor, Bureau of labor Statistics

<u>Example</u>

1. Adjusted Cost of Trade Fixture

	<u>Refrigerator</u>
Actual cost:	$1,510
CPI (most recent):	118.1
CPI (base year):	104.6
Expired term:	57 mos.
Whole term: (Anticipated life)	96 mos.

$$\text{Actual Cost} \times \frac{\text{CPI (most recent)}}{\text{CPI (base year)}}$$

Document1

EXHIBIT 2

$$\$1,510 \times \frac{118.1}{104.6} + \$1,705$$

2. Depreciation

$$\$1.705 \times \frac{57 \text{ mos.}}{96 \text{ mos.}} = \$1,012$$

3. Adjusted Depreciated Cost of Trade Fixture

$1,705 - $1,012 = $ 693

SCHEDULE C. Premium Percentages

1. For the first 5 years, the premium is 50% of the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The percentage will decrease by 5% after every 5 years of the total term has elapsed.

Years	Percentage
1 - 5	50%
6 - 10	45%
11 - 15	40%
16 - 20	35%
21 - 25	30%
26 - 30	25%
31 - 35	20%
36 - 40	15%
41 - 45	10%
46 - 50	5%
51 -	0%

As an example, if a 55 year lease was assigned after 57 months, the premium percentage would be 50%. If the assignment occurs after 130 months (10+ years), the percentage would be 40%.

2. The Board of Land and Natural Resources may impose a ten percent (10%) surcharge if the assignor has not performed lease covenants to improve or use the property.

SCHEDULE D. Assignment of Lease Calculations

1. Subtract from the consideration for the assignment that amount, if any, that is attributable to inventory.

2. Calculate the Adjusted Depreciated Cost of Improvements or Renovations (see Schedule A).

3. Calculate the Adjusted Depreciated Cost of Trade Fixtures (see Schedule B).

4. Calculate the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee by subtracting the amounts derived by no. 2 and 3 from the amount in no. 1 above.

5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

A lease is being assigned 57 months after completion of the improvements at a consideration of $600,000.

The initial cost of the improvements was $500,000 while the current year CCI and base year CCI were 121.1 and 102.3, respectively. The whole term for the improvements is 408 months.

For the trade fixtures, the initial cost was $1,510 with the current year CPI and base year CPI being 118.1 and 104.6, respectively. The total life expectancy is 96 months.

1.	Net Consideration:			$600,000
2.	Adj Cost Imp/Ren:	$591,887		
	Depreciation:	- 82,690		
	Adj Dep Cost Imp/Ren:			-509,197
3.	Adj Cost Trade Fixtures:	1,705		
	Depreciation:	- 1,012		
	Adj Dep Cost Trade Fixtures:			- 693
4.	Excess:			$ 90,110
5.	Premium:	Percentage:	50%	$ 45,055

Document1

EXHIBIT 2

SCHEDULE E. Subsequent Assignment of Lease Calculations

1. Subtract from the consideration the assignor received for the assignment that amount, if any, that is attributable to inventory to derive the net consideration received.

2. Subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to inventory. Also, subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to premiums. The net consideration paid is now defined to be the value of improvements as of the date of the occupancy by the assignor.

3. Using the result from no. 2, calculate the Adjusted Depreciated Value of Improvements or Renovations (see Schedule A).

4. Subtract the amount derived by no. 3 from the amount in no. 1 to determine the amount by which the consideration received for the assignment, whether by cash, credit, or otherwise, exceeds the adjusted depreciated value of improvements being transferred to the assignee.

5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

An assignor is assigning a lease 107 months after receiving the consent of the Board. Occupancy or the holding period is defined to be 107 months. The consideration received is $1,000,000.

The consideration paid by the assignor was $600,000 while the current year CCI and redefined base year CCI were 156.4 and 121.1, respectively. The whole term was 408 months.

EXHIBIT 2

No inventory was included in either consideration. However, a premium of $45,055 was paid to the state by the previous occupant from the $600,000 consideration.

1.	Net Consideration Received:				$1,000,000
2.	Consideration Paid:		$600,000		
	Premium:		- 45,055		
	Net Consideration Paid:			$554,945	
3.	Adj Value Consideration (improvements):				
	$554,945 X 156.4 / 121.1		=	$716,708	
	Depreciation:				
	$716,708 X 107 mos. / 408 mos.		=	-187,960	
	Adj Dep Value Consideration:				- 528,748
4.	Excess:				$ 471,252
5.	Premium:	Percentage:	45%		$ 212,063

Document1

EXHIBIT 2

LINDA LINGLE
GOVERNOR OF HAWAII

LAURA H. THIELEN
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
LAND DIVISION

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

August 20, 2009

MEMORANDUM

TO: Laura H. Thielen, Chairperson

THROUGH: Morris M. Atta, Division Administrator

FROM: Cyrus C. Chen, Real Estate Appraisal Manager

SUBJECT: In-House Valuation Recommendation – Assignment of Lease Calculation

GL No.:	S-4946
Lessee/Assignor:	Sunrise Capital, Inc.
Assignee:	Integrated Aquaculture Hawaii, LLC (IA Hawaii)
Location:	Waimea, Kauai, HI
Land Area:	16,855 sq. ft.
Tax Map Key:	(4) 1-9-10: 37
Char. of Use:	Wholesale/retail fish market operation

We have been requested to provide an in-house evaluation of the assignment premium due to the State for an assignment of GL S-4946 due to the acquisition of Sunrise Capital, Inc. by IA Hawaii. A review of the lease documents and information provided by lessee was analyzed and staff applied the formula approved by the Land Board on December 15, 1989, agenda item F-10, comprising of the Assignment of Lease Evaluation Policy.

Net consideration		$350,000
Actual improvement cost	$7,269,262	
Adjusted improvement cost	$8,408,355	
Trade fixture cost	$0	
Total improvement and trade fixture cost	$8,408,355	
Less depreciation	($467,505)	
Depreciated value of improvements & fixtures	$7,940,851	
Less adjusted improvement cost (inc. trade fixtures)		($7,940,851)
Excess		($7,590,851)
Premium % (21-25 years elapsed)		30%
Premium		($2,277,255)

EXHIBIT 3

Based on these calculations resulting in a negative premium calculation, the premium due the State is $0.

Special Conditions and Limiting Assumptions

1) The subject property was not inspected by the staff appraiser.

2) This memo does not comply with USPAP and is to be used for determining the assignment premium due the State only.

Approved/Disapproved:

Laura H. Thielen, Chairperson

8/20/09
Date

cc: District Branch Files AUG 25 2009
Central Files

Table 1

Assignment of Lease Premium Calculation
GL 4946: Sunrise Capital Inc.

Net Consideration	$350,000	
Improvement Cost	$ 7,269,262	Value as of June 30, 2006
CCI (most recent)	201.5	2008
CCI (base year)	174.2	2006
Expired Term	297	mos.
Whole Term	468	mos.

1 Adjusted Cost of Improvements or Renovations

$$\text{Actual Cost} \times \frac{\text{CCI (most recent)}}{\text{CCI (base year)}}$$

$$\$7{,}269{,}262 \times \frac{201.5}{174.2} = \$8{,}408{,}355$$

2 Depreciation

$$\$8{,}408{,}355 \times \frac{26 \text{ mos.}}{468 \text{ mos.}} = \$467{,}505$$

3 Adjusted Depreciated Cost of Improvements or Renovations

$$\$8{,}408{,}355 - \$467{,}505 = \$7{,}940{,}851$$

4 Premium Calculation

Net Consideration		$	350,000
Adjusted Cost of Imp.	$8,408,355		
Depreciation	($467,505)		
Adjusted Deprec. Cost of Imp.			$7,940,851
Excess		$	(7,590,851)
Premium Percentage	x		30%
Premium			($2,277,255)

Assignment of Lease Evaluation Policy Computations

1. Net Consideration:[1]		$703,209[2]
Less: Inventory		(893,000[3])
2. Adj Cost Imp/Ren:	0[4]	
Depreciation:	0[4]	
Adj Dep Cost Imp/Ren:	0[4]	0[4]
3. Adj Cost Trade Fixtures:	333,000[5 6]	
Depreciation:	222,000[7]	
Adj Ep Cost Trade Fixtures:	111,000[8]	(111,000[8])
4. Excess		($300,791)

EXHIBIT 4

1. Allocation of total consideration paid for shares by Hendrix Genetics based on percentage of average EBITDA for 2015 and 2016.

2. Reflects allocation of actual consideration paid by Hendrix Genetics for all shares acquired.

3. Rounded. Actual value of inventory as at December 31, 2016, was $893,229. See attached.

4. As per prior correspondence with Department of Land and Natural Resources ("**DLNR**"), Sunrise Capital, Inc., originally acquired the rights under Department of Agriculture ("**DoA**") General Leases Nos. S-8001, S-8002, S-8005, S-8008, S-8012, S-8013, and S-8017, covering about 150+ acres in the Kekaha Agriculture Park where the Company's extensive shrimp farm is located, the rights under DoA Lease No. S-5367, where the Company's research and hatchery operations are located, and the rights under DLNR General Lease No. 4946 (and R.P. 7256) where the Company's processing plant is located, and all of the improvements in place on the premises subject to the foregoing eight DoA leases and single DLNR lease, in 2005 from the bankruptcy estates of Ceatech Environment Aquaculture Technology, Inc., and its various affiliates ("**Ceatech**"), but the Asset Purchase Agreement with the Ceatech bankruptcy estates did not allocate the purchase price among the extensive assets acquired. In the circumstances, no deduction or offset is reflected in the computations for the cost of improvements and renovations.

5. Rounded. Actual cost as at December 31, 2016, the valuation date, is $332,940.44. See attached.

6. The Honolulu Consumer Price Index for All Urban Consumers (CPI) (Base Period: 1982-84=100), as published by the U.S. Department of Labor, increased from 243.622 in 2011 to 266.528 in 2016, during the period when the additional investment in trade fixtures were made by the Company. For purposes of the current computations, and because we do not think that it makes a material difference in the end result, we have, for simplicity's sake, not increased the cost of investment in trade fixtures by the increase in the CPI over the period of time that these investments were made, but the Company reserves the right to make the CPI adjustment if it should ever become relevant. See also endnote 8 below.

7. For purposes of determining the depreciated value of trade fixtures as part of the present computations, we are using the extended term of General Lease No. S-4946 (January 18, 2000 through and including January 17, 2024) as set forth in that certain Extension of General Lease No. S-4946, dated June 25, 1993, which amended the subject DLNR General Lease in various respects. The original Lease, dated May 24, 1985, did not include a provision that the Department could condition approval of an assignment or a transaction like the present one on compliance with the Department's Assignment of Lease Evaluation Policy, which in any event was not adopted until four years later in 1989. In the circumstances, it would appear inconsistent to include a lease period or periods when the subject Assignment of Lease Evaluation Policy computations were not part of the Lease or applicable. In any event, it would not change the end result.

8. The Department's Assignment of Lease Evaluation Policy was amended by the Board on June 13, 2003, to take into account (and permit an offset for) the full fair market value of the improvements and trade fixtures made and installed by a lessee in cases where the fair market value of the improvements and trade fixtures exceeds the depreciated cost of the improvements and trade fixtures. That is the case here. But, because we do not think that it makes a material difference in the end result, we have, for simplicity's sake, not included any offset for improvements (as stated in endnote 6) and also have used the "depreciated cost" and not the fair market value of the trade fixtures in the attached computations. The Company reserves the right to claim the full amount of any offsets to which it is otherwise entitled if it should ever become relevant to do so.

DAVID Y. IGE
GOVERNOR OF
HAWAII

SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
POST OFFICE BOX 621
HONOLULU, HAWAII 96809

November 20, 2017

MEMORANDUM

TO: Suzanne D. Case., Chairperson

THROUGH: Russell Y. Tsuji, Land Division Administrator

FROM: Wesley T. Matsunaga, Kauai District Land Agent

SUBJECT: Assignment Premium Calculation

GL No.:	S-4946
Lessee/Assignor:	Sunrise Capital, Inc.
Assignee:	Hendrix Genetics USA LLC (51% interest)
Location:	Hanapepe, Kauai
Lease Area:	16,855 sf
Tax Map Key:	(4) 1-9-010:037

Based on a review of the lease and information regarding the parties' purchase agreement, staff has applied the assignment of lease evaluation policy attached to the lease as follows.

Consideration for Transaction:	$12,450,000
LESS Allocation of Consideration to Assets Other than GL S-4946:	($11,746,791)
LESS Cost of Inventory:	($893,000)
Net Consideration Received:	($189,791)
2009 Assignment Consideration:	$350,000
LESS 2009 Premium Paid:	($0)
LESS 2009 Cost of Inventory & Other Personal Property:	($0)
Value of Improvements as of 2009	$350,000
Adjusted Value of Improvements:	$418,986
Value of Trade Fixtures as of 2009:	$0

EXHIBIT 5

Net Consideration:	($189,791)
LESS Adjusted Depreciated Improvement Cost:	($177,825)
LESS Adjusted Depreciated Trade Fixture Cost:	($0)[1]
Excess:	($367,616)
Assignment Premium x .45:	($165,427)

Approved/Disapproved:

Suzanne D. Case, Chairperson

11/27/17
Date

cc: District Branch Files
Central Files

[1] Sunrise Capital, Inc. did not report any trade fixtures on the property. However, the reporting of trade fixtures would only result in a greater negative excess than shown in this analysis.

Table 1

Assignment of Lease Premium Calculation
GL 6024: Boteilho Hawaii Enterprises, Inc.

Net Consideration	($189,791)		
Improvement Cost	$ 350,000	Value as of August 28, 2009	
CCI (most recent)	148.8	2017	
CCI (base year)	124.3	2009	
Expired Term	99	mos.	
Whole Term	172	mos.	

1 Adjusted Cost of Improvements or Renovations

Actual Cost $\times \frac{\text{CCI (most recent)}}{\text{CCI (base year)}}$

$\$350{,}000 \times \frac{148.8}{124.3} = \$418{,}986$

2 Depreciation

$\$418{,}986 \times \frac{99 \text{ mos.}}{172 \text{ mos.}} = \$241{,}161$

3 Adjusted Depreciated Cost of Improvements or Renovations

$418,986 - $241,161 = $177,825

4 Premium Calculation

Net Consideration			$ (189,791)
Adjusted Cost of Imp.	$418,986		
Depreciation	($241,161)		
Adjusted Deprec. Cost of Imp.			$177,825
Excess			$ (367,616)
Premium Percentage		x	45%
Premium			($165,427)

* Cost of improvements amount submitted by Lessee less current depreciated value provided