

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

August 28, 2009

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

Kauai

Consent to Stock Transfer and Control in Sunrise Capital, Inc. Lessee under General Lease No. S-4946 and Revocable Permit No. S-7256, from Sunrise Capital, Inc., Transferor, to Integrated Aquaculture Hawaii, LLC, Transferee, Kekaha, Kauai, Tax Map Keys: (4) 1-9-10:37; 1-9-10:34, 35, 38 and 1-9-11:7. (The General Lease and Revocable Permit will continue to be owned by and held in the name of Sunrise Capital, Inc. Consent is requested to a "deemed" transfer of the General Lease and Revocable Permit by reason of a recent acquisition of most of the stock of Sunrise Capital, Inc., by Integrated Aquaculture Hawaii, LLC, and a resulting change in control of the stock ownership of Sunrise Capital, Inc.)

APPLICANT:

Sunrise Capital, Inc., a Hawaii corporation, as Transferor, to Integrated Aquaculture Hawaii, LLC, a Hawaii limited liability company, whose mailing address is P.O. 1282, Kekaha, Hawaii 96752, as Transferee.

LEGAL REFERENCE:

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

LOCATION:

Portion of Government lands of Waimea, Kauai, identified by Tax Map Keys: (4) 1-9-10:37; 1-9-11:7; 1-2-2:portions 1 and 23, as shown on the attached map labeled Exhibit A.

	LAND AREA	TRUST STATUS	DHHL ENTITLEMENT	CHARACTER OF USE
GL #4946	16,855 sf	5(b)	No	Wholesale/retail fish market operation
RP #7256	.825 acres	5(b)	No	Parking, storage and/or access purposes

	TERMS	ANNUAL RENTAL:
GL #4946	Fifteen years, commencing on January 18, 1985 and expiring on January 17, 2000. Extended twenty-four years, expiring on January 17, 2024. Last rental reopening occurred on 1/18/2007; next rental reopening is scheduled for 1/18/2014.	\$9,000
RP #7256	Month-to-month basis for a period of one-year from the commencement date of February 1, 2001, and may be extended by action of the BLNR for additional one-year periods.	\$5,700

CONSIDERATION:

None.

RECOMMENDED PREMIUM:

\$0.0 (Refer to Exhibit B attached draft)

DCCA VERIFICATION:

Place of business registration confirmed: YES X NO
 Registered business name confirmed: YES X NO
 Good standing confirmed: YES X NO

REMARKS:

The above-referenced General Lease and Revocable Permit were previously held by Ceatech USA, Inc., and/or certain of its subsidiaries ("Ceatech Entities"). The Ceatech 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 acquired the operating assets of the Ceatech Entities, including the rights under the General Lease and Revocable Permit. The assignment of the General Lease and Revocable Permit was approved by the Board of Land and Natural Resources at its meeting on July 22, 2005, and formal consents were recorded in connection with the assignment of the General Lease and Revocable Permit to Sunrise Capital. 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 of Land and Natural Resources.

Sunrise Capital, Inc. (the "Company"), is a Hawaii corporation that owns and operates extensive aquaculture and aquaculture-related facilities on the Island of Kauai. The Company is the principal tenant at the Department of Agriculture's (DOA) Kekaha Agricultural Park, where the Company's farm and aquaculture ponds are located. The lease for the hatchery facility was transferred from DLNR to

DOA. The Company holds a 20-year license Agreement from the Agribusiness Development Corporation (ADC) for expansion of the Company'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. The Company also leases lands from DLNR for the processing plant in Hanapepe and various parking/storage facilities in Hanapepe.

By letter dated July 28, 2009, Mr. Stephen M. Gelber on behalf of Sunrise Capital, Inc., requested the Land Board's consent to the recent acquisition of the outstanding shares of stock and control of Sunrise Capital, Inc. by Integrated Aquaculture Hawaii, LLC. Attach to the completed Application Form were copies of Sunrise Capital, Inc. Stock Purchase Agreement, background information on Integrated Aquaculture International, LLC, Integrated Aquaculture Hawaii, LLC and its principals, a Plan of Utilization and Development, a 5-Year Business Plan, IRS tax returns for 2005, 2006 and 2007, bank and credit references, Balance Sheets for 2007 and 2008, tax clearances, general excise tax license, Amended and Restated Articles of Incorporation of Sunrise, Capital, Inc. Integrated Aquaculture Hawaii, LLC ("IA Hawaii"), a wholly-owned subsidiary of Integrated Aquaculture International, Inc. ("IAI"), an international shrimp breeding and management company.

Staff reviewed 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". 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 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."

Mr. Gelber's request triggers a review by staff to determine if there are any premium payments due to the State. Staff appraiser reviewed the documents submitted by Mr. Gelber and determined a negative premium calculation. (Exhibit B)

At the time of the acquisition of the operating assets of the Ceatech Entities by Sunrise Capital, the most recent figure available for "Buildings and other depreciable assets" (the figure most analogous to "Cost of improvements") was \$6,589,698, as shown on the consolidated tax returns for the Ceatech Entities for the year ended January 31, 2004, which is the most recent consolidated return for the Ceatech Entities made available to Sunrise Capital in connection with its acquisition of the operating assets of the Ceatech Entities.

As of June 30, 2006, Sunrise Capital, Inc. 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 of Land and Natural Resources. For purposes of the merger, Sunrise Capital, Inc. and Kona Bay Marine Resources, Inc., were each deemed to have a value of \$3 million, all inclusive, or \$6 million as combined entity value following the merger. Since the date of the merger, but prior to the acquisition of the Company's stock by IA Hawaii, the shareholders of Sunrise Capital, Inc. contributed an additional \$1,269,262 (approximately to the Company).

The \$7,269,262 reflected above is the sum of the \$6 million post-merger value given to the Company as of June 30, 2006 (based on the \$3 million value designated for each of the pre-merger entities), plus the subsequent capital contributions to the Company prior to the acquisition of control by IA Hawaii.

Prior to IA Hawaii's acquisition of the shares, the Company had ceased operations because of an outbreak of so-called "white spot syndrome virus" ("WSSV") at the company's aquaculture farm on Kauai in 2008. As a consequence, the Company had no inventory at the time of the transaction.

IA Hawaii agreed to acquire approximately 81% of the Series A Preferred Shares of the Company and approximately 81.8% of the Common Shares of the Company for \$297,992.75, of which \$127,711.18 is contingent upon certain events. IA Hawaii also agreed to pay an additional \$0.053202550 for the additional shares of the Company that were tendered prior to May 31, 2009, of which \$0.022801093 is

contingent on certain events.

IAI is a highly regarded international aquaculture company with clients and projects in Brazil, Brunei, China, Indonesia, Malaysia, Mexico, and the United States. IAI specializes in providing scientific, technical, and market advice and support to companies involved in aquaculture and the aquatic food supply chain, with a special emphasis on the marine shrimp industry. Its services range from planning, developing, and operating complete integrated shrimp farms and production facilities to devising and implementing technical solutions for specific aquaculture-related problems in order to enhance profitability in the "aquatic value chain." Current clients include the Department of Fisheries of the Government of Brunei, Vimifos S.A. de C.V., in Mexico, H.J. Baker Bro., Inc., Solae LLC, Allied Pacific Foods of China, CJ Feeds of Indonesia, Blue Archipelago Sdn. Bhd. of Malaysia, and Guabi of Brazil. Through IA Hawaii, IAI's experts are now directly involved in the operations of Sunrise Capital, Inc., and have begun to provide science-based management support, technological advice, and marketing assistance to Sunrise Capital, Inc.

The Company will concentrate on its core business, but will improve its genetic lines and expand its distribution system through IAI's network of customers throughout the world. In addition, the Company plans to diversify into complementary areas of aquaculture (black tiger shrimp and other marine species) in order to lessen economic shocks suffered by producing only one product, to expand its own research and development effort, and to conduct research and development for others.

The major challenge faced by prior management and confronting the new owners remains the prevention and control of diseases like the devastating outbreak of white spot virus that required the Company to close down operations in 2008. IAI's experts have preliminarily focused on whether birds that frequent the nearby landfill and wetlands might be the vector that carries and transmits the disease.

The Company is therefore exploring the possibility of retro-fitting its hatchery ponds and the ponds at its aquaculture farm with bird-netting "covers" to reduce the possible re-introduction of disease by birds. The installation of covers or bird-netting would involve significant capital costs, so, before incurring this and other costs, it is important for the Company to confirm that it will continue to have long-term rights to all of the various lands leased from DLNR, DOA, and ADC.

Sunrise Capital, Inc., is in compliance with its rent payments, submission of liability insurance, and performance bond/security deposit.

The Transferee 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.

There are no outstanding rental reopening issues.

No agency or community comments were solicited. There are no pertinent issues or concerns.

RECOMMENDATION:

That the Board consent to the stock transfer and control in Sunrise Capital, Inc. Lessee under General Lease No. S-4946 and Revocable Permit No. S-7256, by Integrated Aquaculture Hawaii, LLC, Transferee, 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,



Charlene E. Unoki
Assistant Administrator

APPROVED FOR SUBMITTAL:



Laura H. Thielen, Chairperson 

PROCESSING PLANT (General Lease from Department of Land and Natural Resources)

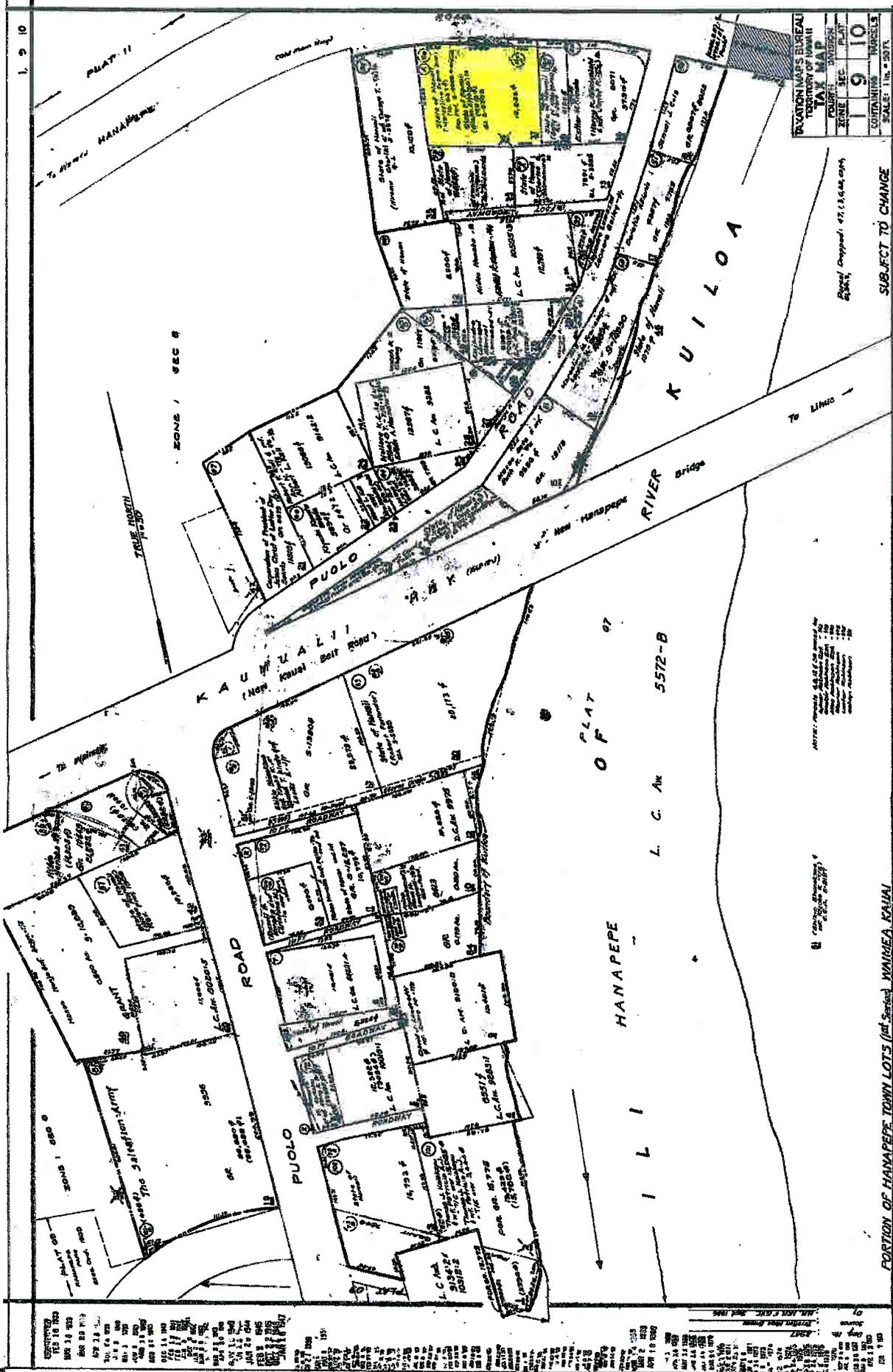
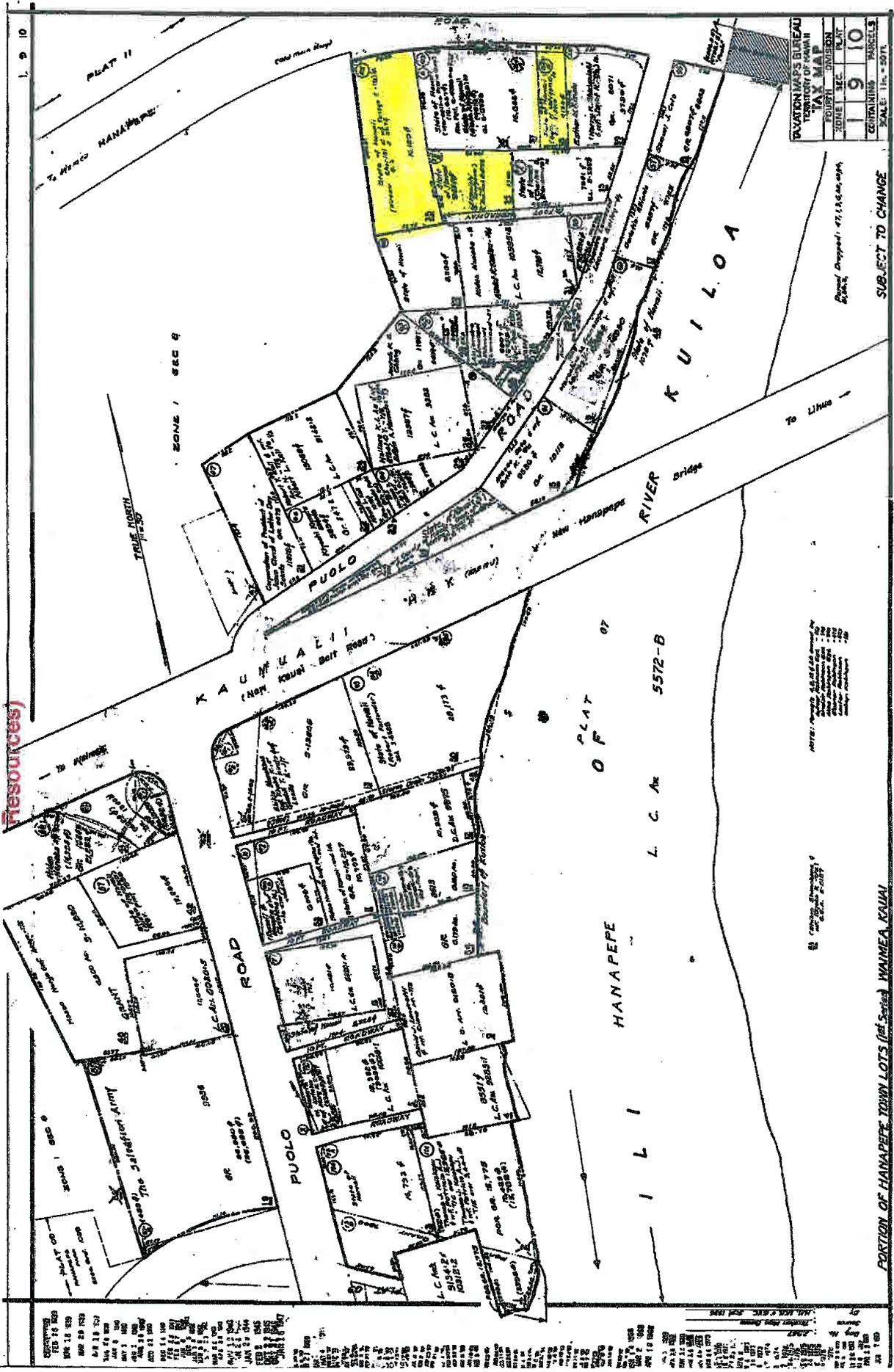


EXHIBIT "A"

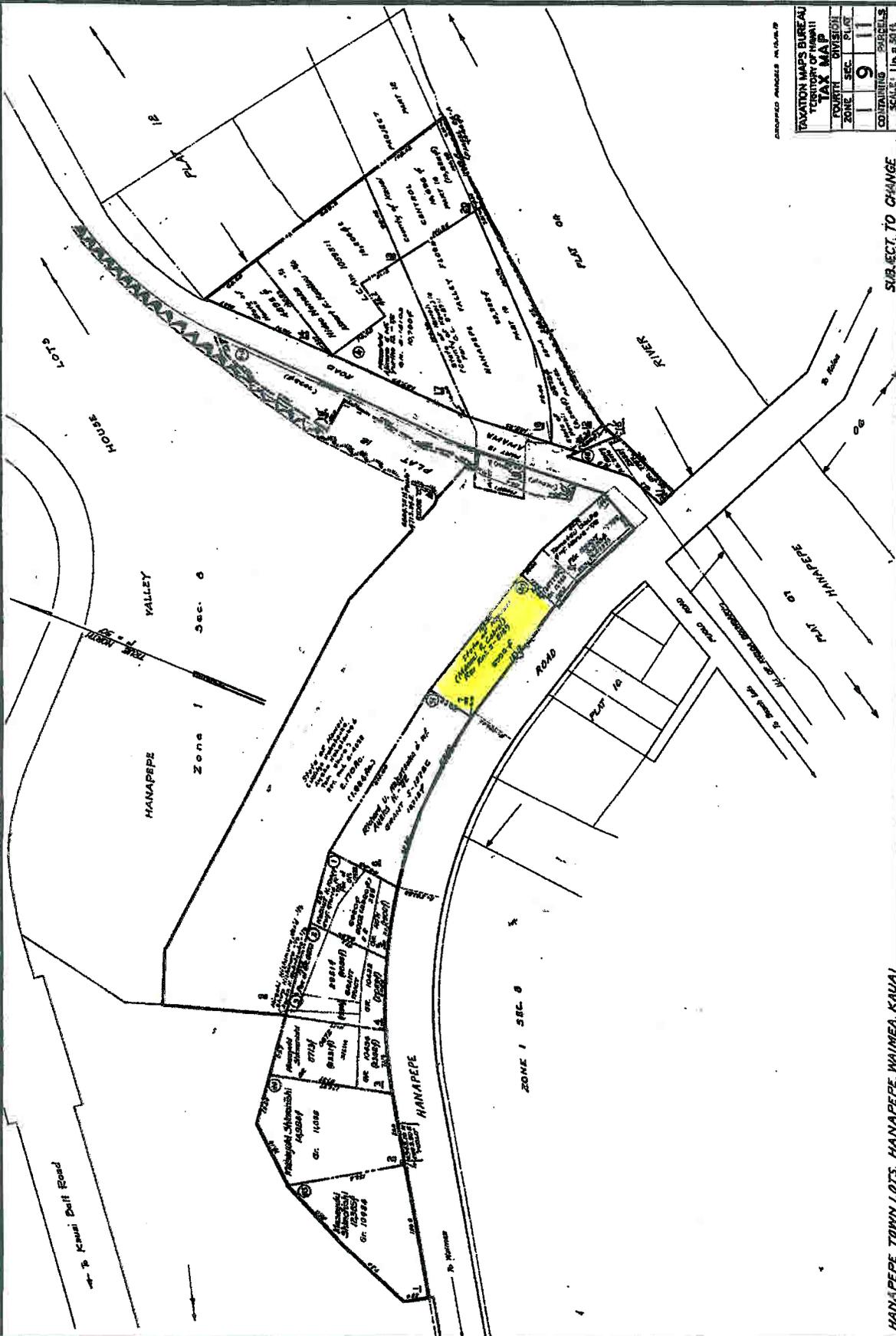
PROCESSING PLANT - ADDITIONAL PARKING (Under Revocable Permit from Department of Land and Natural Resources)



SECTION	DATE	BY	REVISIONS
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4	1910		
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50	1910		

PROCESSING PLANT - ADDITIONAL PARKING (Under Revocable Permit from Department of Land and Natural Resources)

1911



CONTAINING PARCELS NUMBER

TAXATION MAPS BUREAU	1	9	11
TERRITORY OF HAWAII			
TAX MAP			
COURTY DIVISION			
ZONE			
SEC.			
PLAT			
CONTAINING PARCELS			
SCALE: 1 in. = 50 ft.			

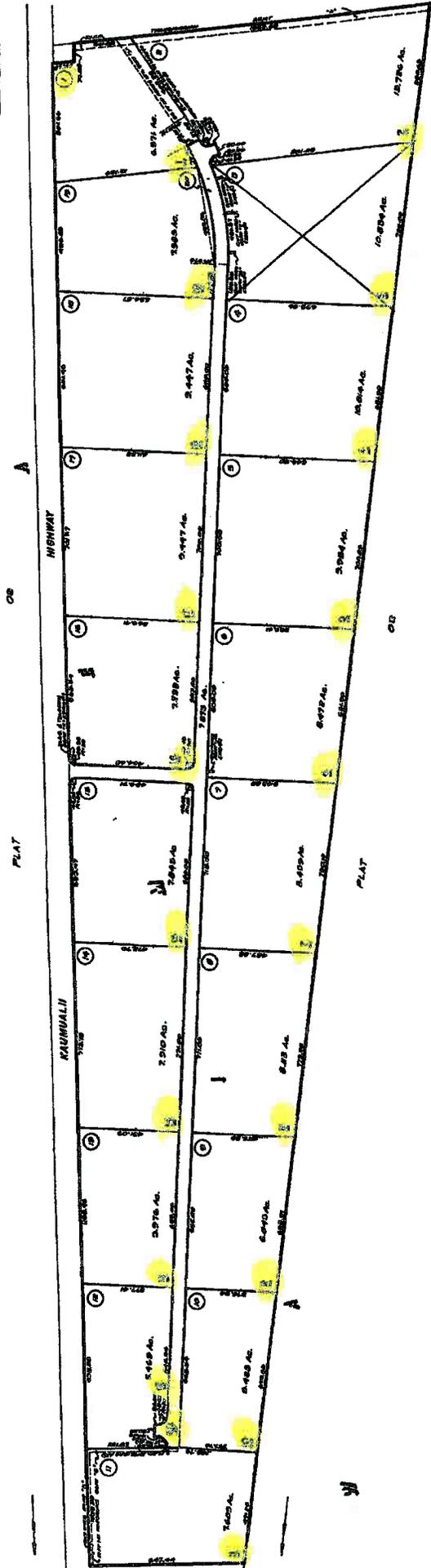
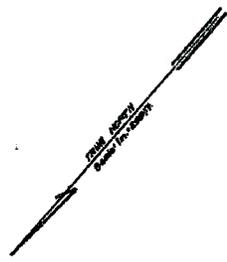
SUBJECT TO CHANGE

HANAPEPE TOWN LOTS, HANAPEPE, HAINA, KAUAI

Map No. 2888
 Sources: Shaded Area Survey of Towns, Ltd. Proj. Maps 2815C-2888
 Date: 1911
 Scale: 1 in. = 50 ft.

FARM (Kekaha Ag Park) [Under Various Leases from Department of Agriculture]

1 - 2 - 15 47H 0187



NOTE: ALL INFO obtained by State of Hawaii Land Information Institute.

Owner, lessee, or holder of any interest in this land plat may apply to the Department of Land and Natural Resources for a copy of the plat and any other information.

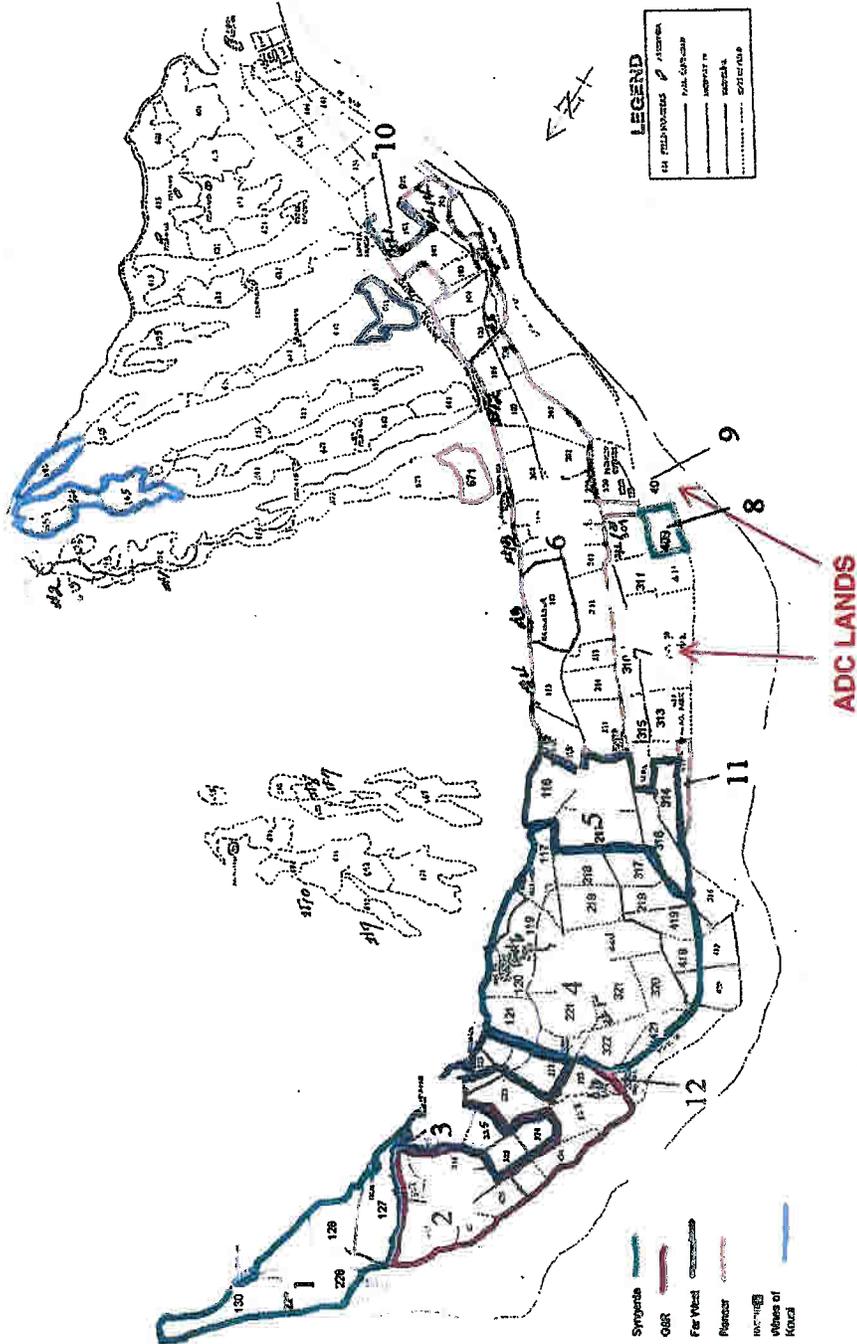
COUNTY OF KAUAI	
ZONE	SECTION
1	2
SHEET 18 OF 200 FT.	

FOR PROPERTY ASSESSMENT PURPOSES - SUBJECT TO CHANGE

© KEKHA AGRICULTURAL PARK SUBD. P.P. 0185, KEKHA, HIJUEA, KAUAI, HAWAII (Revised) 08-15-502

EXHIBIT "A"

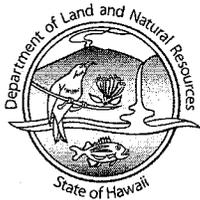
ADC LANDS(433.85± acres)



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

DRAFT

MEMORANDUM

TO: Laura H. Thielen, Chairperson

THROUGH: Morris M. Atta, Division Administrator *Morris M. Atta*

FROM: Cyrus C. Chen, Real Estate Appraisal Manager *Cyrus C. Chen*

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 "D"

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

Date

cc: District Branch Files
Central Files