

# LIGNOTECH DEVELOPMENTS LIMITED

(*'Lignotech'* and *'the Company'*)

## NOTICE OF SPECIAL MEETING

Notice is given that a special meeting of shareholders will be held at the Ashburton Hotel, Racecourse Road, Ashburton at 6pm on 28<sup>th</sup> day of April 2014 for the purposes of considering the resolutions set out below:

### **Resolution 1**

#### **Major Transaction – Special Resolution**

That the shareholders authorise the directors to enter into such agreements, arrangements and transactions as may be required to raise, by issuing shares and incurring debt, an aggregate amount of US\$11.6 million for the purpose of establishing and building a new *'initial processing facility'* in Nebraska, USA with a view to that IPF being established for the purpose of producing commercial quantities of an engineered bio filler for the plastics industry and to further develop the know how and expertise of the Company in the production of such products and that the directors are authorised to enter into these transactions as a major transaction pursuant to section 129 of the Companies Act 1993.

#### **Explanatory Note**

In December 2012 the experimental plant operated by the Company in Ashburton was destroyed by fire and since that time the Board has been developing a strategy for the Company which will enable it to progress the development of its intellectual property in the production of a processed bio filler for the plastics industry and to be able to provide sufficient quantity of that product both for commercial and testing use by potential manufacturers and users of that product in the USA.

The Board has recognised that it will be important to have an association with a significant USA based investor to assist in meeting the objectives of the Company. After extensive discussions and negotiations the Board has concluded that the best way to maximise the benefits for shareholders and to utilise the know how and technology of the Company is for:

- A new plant to be constructed in the USA to produce the engineered bio filler.
- To further develop know how and technology so that this can be used for the platform for the worldwide aspirations of the Company.
- To have access to a professional and experienced team of people in the USA who can assist in driving the business objectives of the Company.
- To have immediate access to experts and suppliers of plant who are based in the USA and can assist in constructing a plant that is capable of producing the engineered bio-filler.

Directors are recommending to all shareholders that they support this initiative as unless the new plant can be constructed the intellectual property held by the Company cannot be applied in a plant to demonstrate the benefits which this product can bring to the plastics market and industry.

### **Resolution 2**

#### **Approval under Takeovers Code 2000 – Ordinary Resolution**

That as required by Rule 7(d) of the Takeovers Code 2000 the shareholders approve the increase in voting control of the proposed allottees and their associates through the allotment of the ordinary shares set out in the Resolution below which will increase the voting control of those proposed allottees over the 20% threshold as contained in Rule 6(1) of the Code.. That the shareholders also approve the Company issuing up to the number of ordinary shares (ranking equally with the existing ordinary shares on issue) as set out below subject to the weighted average issue price for the shares being issued being not less than US\$4.31

for each ordinary share. Such shares in (a) to (e) are to be issued pursuant to agreements entered into between the Company and each of those entities. Any such issue of shares is subject to Resolution 4 below being passed:

- (a) 539,712 ordinary shares to KAAPA Bio-Products 2013, LLC;
- (b) 224,880 ordinary shares to Central Nebraska Xylemer BioProducts 2013, LLC;
- (c) 512,727 ordinary shares to KAAPA Bio-Products 2014, LLC;
- (d) 213,636 ordinary shares to Central Nebraska Xylemer BioProducts 2014, LLC;
- (e) 227,273 ordinary shares to KAAPA LDL Development Equity LLC at an issue price of US\$4.40 each with the funds so raised being advanced to Xylemer BioProducts Inc to enable that company to redeem the US\$1,000,001.20 of redeemable preference shares issued to KAAPA LDL Development Equity LLC and enable that entity to apply for the said 227,273 shares in the Company.
- (f) 58,352 ordinary shares to KAAPA Investments LLC at US\$4.40 each in consideration of KAAPA Investments LLC placing the shares in (a) to (e) above and with the placement fee of US\$256,748.80 setting off the same amount which is payable on allotment of the said shares.

That on issue each of those shares shall rank equally in all respects with the existing ordinary shares on issue in the Company.

**Summary Explanatory Note (see full explanation in accompanying document)**

A full explanation of this resolution is set out in the explanatory notes accompanying this notice of meeting. Because the Company has 67 shareholders it is a Code Company under the Takeovers Code 2000 (*the Code*). The provisions of that Code, if certain fundamental rules apply, provides that shareholders must approve the increase in voting control by the proposed allottees of the shares and their associates as it will result in over 20% of the voting control being held by those allottees and associates. This is in excess of the 20% threshold under Rule 6 (1) of the Code. If the effect of the allotment of those shares will result in the holders (if they are associated with each other) holding more than 20% of the voting control in the Company the provisions of Rule 6 of the Code will not be met unless, under the exception to that Rule, approval from shareholders is obtained as permitted by Rule 7(d). If the allotment issue of shares set out above is approved the entities entitled to those shares can, if they vote together, exercise votes for 28.6% of the total voting shares on issue. If the existing 214,400 shares held by KAAPA Investments LLC in the Company are included the aggregate voting control will be 32.1% if all the shares are allotted to the maximum numbers set out above. This would be in breach of Rule 6(1) of the Code if the above parties are associates of each other. The allotment of shares by the Company to those entities in those circumstances will not take place unless approved by shareholders by ordinary resolution.

Rule 16 of the Code requires certain information to be provided to shareholders in considering the resolution.

**Particulars Required by Rule 16(b)(ii) of the Code**

For the purposes of these particulars the '*Proposed Allottees*' are:

- KAAPA BioProducts 2013, LLC
- Central Nebraska Xylemer BioProducts 2013, LLC
- KAAPA Bio-Products 2014, LLC
- Central Nebraska Xylemer BioProducts 2014, LLC

- KAAPA LDL Development Equity, LLC
- KAAPA Investments, LLC

The particulars of voting securities for the purposes of Rule 16(b)(ii) of the Code are as follows:

- (a) The maximum number of voting securities that could be allotted (the approved maximum number) to the Proposed Allottees is 1,776,580 ordinary voting shares (29.7%). This excludes 217,400 ordinary voting shares (3.63%) already held by one of the associated persons.
- (b) The percentage of the aggregate of all existing voting securities, and all voting securities that could be allotted, that the approved maximum number represents, is set out in the table below:

<b>Name</b>	<b>Shares</b>	<b>Percentage</b>
<b>Proposed Allottees</b>		
• KAAPA	1,776,580	29.70%
<b>Existing Associate of Proposed Allottees</b>		
• KAAPA Investments LLC	217,400	3.63%
<b>Other Shareholders</b>		
• Garry Haskett (BioTech, Haskett Holdings)	608,821	10.18%
• Phillip Quaid (Quaid and Argyle, P S Quaid)	482,528	8.07%
• Rafferty (Lignin Group, Karen Rafferty)	365,646	6.11%
• NZ High Tech	344,786	5.76%
Balance of Shareholders*	2,186,518	36.55%
	<b>5,982,279</b>	<b>100%</b>

\* Balance excludes the further 387,272 shares that may be issued under Resolution 3

- (c) The maximum percentage of all voting securities that could be held or controlled by the Proposed Allottees after completion of the allotment of the shares is 32.1%.
- (d) The maximum aggregate of the percentage of all voting securities that can be held or controlled by the Proposed Allottees and the Proposed Allottees' associates after completion of the allotment or allotments (taking into account there are no voting securities of any of the Proposed Allottees associates who are also relying on Rule 7(d) in relation to the allotment or allotments (*the relying associates*)) is 32.1%.
- (e) There are no relying associates as there has been no prior allotment of voting securities in the Company to a person in accordance with an approval by ordinary resolution of the Company passed in accordance with the provisions of the Code.
- (f) The date used to determine the information referred to in this clause, being the calculation date, is 28 March 2014.
- (g) The assumptions on which the particulars in paragraphs (a) to (f) are calculated are set out below:
- (i) the number of voting securities on issue on the calculation date is 4,205,699 ordinary voting shares; and

- (ii) it is assumed that there will be no change in the total number of voting securities on issue between the calculation date and the end of the allotment period;
- (iii) it is assumed that the Proposed Allottees are allotted the approved maximum number of voting securities under the allotments set out in the resolutions; and
- (iv) it is assumed that each of the Proposed Allottees and each of the allottees' associates are allotted the maximum number of voting securities; and
- (v) the proposed resolutions would also permit the Company to issue up to a further 387,272 ordinary voting shares but those shares will not be offered or issued to any of the associated persons. In addition if there is any shortfall in applications for the shares to be offered to the associated persons then that shortfall may also be issued by the Company but it will not be issued to any of the associated persons or any other person who could be an associate of those Proposed Allottees.

Further information is contained in the full information memorandum that accompanies this notice of meeting. It comprises:

- details of the entities to which it is proposed that shares be allotted and the percentages of voting securities before and after allotment;
- the relationship between those entities and KAAPA Investments LLC as an existing shareholder of the Company;
- details of the proposed issue price for the shares;
- reasons for the transactions;
- impact of the Code on the proposal;
- details of the agreements with the entities to which the shares may be issued;
- a report from PricewaterhouseCoopers as the independent adviser.

### **Resolution 3**

#### **Ordinary Resolution**

That the shareholders authorise the Directors to issue up to:

- (a) a further 160,000 ordinary shares at such time and to such persons and entities as the Directors consider appropriate provided the weighted average issue price for those shares is at least US\$4.40; and
- (b) Up to a further 227,272 ordinary shares to be issued to entities or persons as approved by the Directors of the Company together with any shortfall in applications for shares based on the number of shares to be issued under Resolution 2(a) to (f) so that if 1,718,228 shares are not allotted to those entities the Directors may issue that shortfall to such persons or entities as approved by the Directors. The average issue price of any shares so placed shall not be less than US\$4.40 for each ordinary share. Those shares shall not be offered to any of the entities to which shares are allotted under Resolution 2 or their associates.

### **Explanatory Note**

The subscription agreements referred to in Resolution 2 provide that after the allotment of those shares all further issues of shares must be made pro rata to all shareholders based on the number of shares held. The exception to this is the right of the Company to issue up to a further 160,000 ordinary shares by way of a placement without those shares being offered to existing shareholders and to issue a further 227,272 shares to persons who are situated in the USA or elsewhere and whom can assist the Company in achieving its objectives. All of these shares are to be issued at not less than US\$4.40 each less any reasonable fee for the placement of those shares. It is not intended that any of those shares will be issued to KAAPA Investments LP or any associate of that entity so the further shares to be issued will not be to entities which are any of the parties who may be allotted shares pursuant to Resolution 2 above. This resolution authorises the directors to issue a further 387,272 ordinary shares provided that the weighted average price at which those shares are issued is not less than US\$4.40 less any allowance for placement fees.

### **Resolution 4 Special Resolution**

That subject to and conditional upon Resolutions 1 to 3 being passed the constitution of the Company be amended by adding two new clauses 53.3 and 53.4 as set out below and by renumbering of the existing clauses 53.3 and 53.4 as clauses 53.5 and 53.6.

- 53.3 That while KAAPA BioProducts 2013 LLC continues to hold at least 539,122 of the voting shares on issue in the Company that KAAPA BioProducts 2013 shall be entitled to appoint one director of the Company.
  
- 53.4 That while KAAPA BioProducts 2014 LLC continues to hold at least 512,727 of the voting shares on issue in the Company that KAAPA BioProducts 2014 shall be entitled to appoint one director of the Company.

### **Explanatory Note**

The terms of issue of shares to KAAPA BioProducts 2013 LLC provides that those entities, if they become a holder of 539,122 and 512,727 respectively of the voting shares in the Company, representing 16.94% of the voting shares on issue if all of the said shares as set out above are issued as set out in the explanatory memorandum, each have the right to appoint one director of the Company. The reasons for this are set out in more detail to the Explanatory Memorandum.

### **Resolution 5 Special Resolution**

That clause 9 of the Third Schedule to the Constitution be amended by changing '50' percent to '20' percent.

### **Explanatory Note**

This will change the requirement for a quorum at a shareholders meeting from 50% of the shareholders having to attend in person or in proxy to 20%. This is more in line with other companies as at past meetings it has been difficult to achieve such a high quorum percentage.

## FURTHER MATTERS:

- 1 **Resolutions 2 - 3** are to be passed as Ordinary Resolutions under the constitution of the Company.
- 2 **An Ordinary Resolution** means a resolution passed at a meeting duly convened and held in accordance with the provisions of the constitution of the Company and the Companies Act 1993 and carried by a majority of more than 50% of the persons voting at the meeting upon a show of hands or, if a poll is duly demanded by a majority consisting of more than 50% of the votes given on such a poll. At a meeting of shareholders on a poll each shareholder has one vote for each share held.
- 3 **Resolutions 1, 4 and 5** are required to be passed as Special Resolutions because the transactions that are contemplated to be entered into by the Company are major transactions under Section 129 of the Companies Act 1993. If a major transaction is to be entered into the Company must obtain shareholder approval by means of a Special Resolution prior to that resolution taking effect.
- 4 **A Special Resolution** means a resolution passed at a meeting duly convened and held in accordance with the provisions of the constitution of the Company and the Companies Act 1993 and carried by a majority of more than 75% of the persons voting by a poll at the meeting. At a meeting of shareholders on a poll each shareholder has one vote for each share held.
- 5 **Quorum** – A quorum for the meeting of shareholders shall be 5 or more shareholders respectively present in person or by proxy, attorney or authorised representative or at least 5 shareholders holding together 50% or more of the voting shares on issue.
- 6 **Shareholders** – Shareholders are advised that any shareholder that is entitled to attend and vote at the meeting may appoint a proxy, attorney or (in the case of a corporate shareholder) an authorised representative to attend and vote on his/her/or its behalf. The proxy need not be a shareholder of the Company and a proxy appointment form must be deposited at Link Market Services, 138 Tancred Street (PO Box 384), Ashburton 7740 to be received no later than **11 am on 28<sup>th</sup> day April 2014** being at least 48 hours before the time of the meeting. Proxies may also be sent by the form being scanned and emailed to [garry@lignotech.co.nz](mailto:garry@lignotech.co.nz) or by the proxy being sent by facsimile to 03 308 8132. A form of proxy is attached.
- 7 **Proxy Forms** – are required to signed as follows:
  - (a) if the shareholders are a company, the proxy form must be signed pursuant to Section 180(1)(a) of the Companies Act 1993 by two directors or as otherwise provided by that section. If the Company has one director that director's signature must be witnessed;
  - (b) if the shareholder is an incorporated body the proxy form must be signed by the authorised signatories of that body as required by the constitution of that body;
  - (c) if the holding is held jointly (as with a husband and wife) the proxy form must be signed by both shareholders;
  - (d) if there is an individual shareholder then the proxy form should be signed by that person in his or her usual signature or by the attorney of that shareholder;
  - (e) if a trust holds the shares then all of the trustees in whose name those shares are registered must sign the proxy form.

- 8 If the proxy form is being signed under a power of attorney, a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non revocation of the power of attorney must be produced to the Company with the proxy form.
- 9 **Attendance and Voting Rights** – all shareholders, or that shareholders proxy or representative, are entitled to attend the meeting and vote. On a show of hands each shareholder has one vote and on a poll one vote for each share held.
- 10 **Representative** - If the shareholder is a company or an incorporated body which wishes to be represented at that meeting by an individual that shareholder will need to pass a resolution appointing that person as a representative. A copy of that resolution must be brought to the meeting.

## PROXY FORM

### LIGNOTECH DEVELOPMENTS LIMITED (the Company)

#### VOTING BY PROXY

All members entitled to attend and vote at the meeting are entitled to appoint a proxy to attend and vote on their behalf by completing, signing and lodging the proxy form enclosed, at Link Market Services, 138 Tancred Street, PO Box 384, Ashburton 7740 no later than 11am 28<sup>th</sup> day April 2014. The Chairman of the Meeting is available to act as proxy if required.

#### PROXY FORM (FOR USE IF YOU ARE UNABLE TO ATTEND THE SPECIAL MEETING OR WISH TO VOTE AHEAD OF THE SPECIAL MEETING)

I/We \_\_\_\_\_  
(FULL NAME IN BLOCK LETTERS )

of \_\_\_\_\_  
(FULL ADDRESS IN BLOCK LETTERS)

being a shareholder of the Company **HEREBY**

**APPOINT** \_\_\_\_\_  
(FULL NAME OF PROXY IN BLOCK LETTERS)

of \_\_\_\_\_

as my/our proxy to vote on my/our behalf at the special meeting of shareholders to be held on 28<sup>th</sup> day April 2014 at 6 pm and at any adjournment thereof.

Unless otherwise instructed, the proxy will vote as he or she thinks fit. Should you wish to direct the proxy how to vote please indicate with a (✓) in the appropriate boxes below.

	In Favour	Against
<b>1. Special Resolution Major Transaction</b> To approve the directors entering into commitments of up to US\$11 million.	<input type="checkbox"/>	<input type="checkbox"/>
<b>2. Ordinary Resolution Approval under Takeovers Code</b> To approve the allotment of shares to the entities set out in the notice of meeting.	<input type="checkbox"/>	<input type="checkbox"/>
<b>3. Ordinary Resolution Issue of further shares</b> To approve the issue of up to 387,272 ordinary shares to such persons as the Directors consider appropriate.	<input type="checkbox"/>	<input type="checkbox"/>



	In Favour	Against
<b>4. Special Resolution To amend constitution</b>  To approve the Constitution of the Company being amended as set out in the notice of meeting.	<input type="checkbox"/>	<input type="checkbox"/>
<b>5. Special Resolution To amend quorum</b>  To approve a change to the constitution of the Company to amend the quorum of a meeting to be 20% rather than 50%.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... 2014

Usual signature(s): \_\_\_\_\_

Usual signature(s): \_\_\_\_\_

#### NOTES ON PROXY FORM

- |   |  |
|---|--|
| <p>(1) <b>Entitlement to appoint proxy:</b> A member of the Company entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him/her.</p> <p>(2) <b>Proxy not a member:</b> A proxy need not be a shareholder of the Company. The Chairman may be appointed as proxy.</p> <p>(3) <b>Name of proxy:</b> You must indicate the name of your proxy. Failure to do so will invalidate your vote.</p> <p>(4) <b>Indication of vote:</b> Please indicate in the appropriate boxes how your vote is to be cast. If you do not, the chairman will <b>have</b> the ability to cast your vote as he sees fit.</p> <p>(5) <b>Signing of proxy form</b></p> <p>(a) <b>Individual holder:</b> In the case of an individual holder, the proxy form should be signed by that person in his or her usual signature or by the attorney of that holder.</p> <p>(b) <b>Joint holders:</b> If the holding is jointly held (as with a husband and wife) the proxy form must be signed by both holders.</p> | <p>(c) <b>Company or other body:</b> If a member is a company then this proxy form must signed by a person who has express or implied authority to sign the proxy form as a representative of the company. If the member is another type of incorporated body the proxy form must be signed by the authorised signatories of that body as required by the constitution of that body or by a person who has express or implied authority to sign the proxy as a representative of that body.</p> <p>(d) <b>Power of Attorney:</b> If this form has been signed under Power of Attorney a copy of the Power of Attorney and a signed certificate of non-revocation of Power of Attorney must be produced to Link Market Services Limited with the proxy form.</p> <p>(6) <b>Deposit of proxies:</b> Instruments appointing a proxy must be deposited at the share registrar of the Company, Link Market Services, 138 Tancred Street, (PO Box 384), Ashburton 7740 no later than 11am on 28<sup>th</sup> day April 2014.</p> |
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**Please forward to:**  
 Lignotech Developments Limited  
 c/- Link Market Services  
 138 Tancred Street  
 PO Box 384  
 Ashburton 7740