

# EXPLANATORY MEMORANDUM

## LIGNOTECH DEVELOPMENTS LIMITED

---

This is an explanatory memorandum to accompany a notice of meeting sent to shareholders of Lignotech Developments Limited (*the 'Company' and 'Lignotech'*), under which notice of meeting four resolutions are being placed before the shareholders of the Company for consideration, including a resolution for the Company to issue new voting shares to certain entities, and to change the constitution of the Company to enable up to two directors to be appointed by two of the USA based shareholders.

### **Prior Meeting**

A meeting of shareholders was held on Monday 28 April 2014 to consider similar resolutions to issue new shares to entities associated with KAAPA BioProducts 2013, LLC (*KAAPA*) which is an existing shareholder of the Company. Although the resolutions were approved the share issue did not proceed. The reasons for not proceeding included the following:

- The difficulty in obtaining loan finance in the USA for a start up project despite earlier indications that this would not be difficult.
- The costs for the production facility which were materially higher than the costs the consultants had predicted.
- An inability to provide samples of the Xylemer product for testing by potential customers. The samples held had been contaminated during testing.

As a result of the above the Company has restructured the project and did not proceed to issue any shares under the 28 April 2014 resolutions. For this reason the Company will ask shareholders to revoke the previous resolutions passed on 28 April 2014 authorising the issue of shares.

### **Overview of Resolutions**

The proposed resolutions, if passed by shareholders, will have the effect set out below:

- (a) The resolutions authorising issues of shares passed at a shareholders meeting on 28 April 2014 will be revoked.
- (b) New resolutions will enable shares to be issued by the Company as set out below:
  - (i) Up to 1,240,244 ordinary shares to KAAPA and its associated entities.
  - (ii) Up to 45,731 ordinary shares to be issued to the subscribers under (i) above and up to 21,386 ordinary shares to be issued to the subscribers under (iv) below as placement fees.
  - (iii) Up to 284,121 ordinary shares to KAPPA LDL Development Equity LLC in satisfaction of the purchase of up to US\$1,000,001.20 of Preferred Stock issued by Xylemer BioProducts LLC.
  - (iv) Up to 712,865 ordinary shares to other selected investors whom are not associated with KAAPA or entities associated with KAAPA.

- (v) Up to 300,000 ordinary shares to persons selected by the Company and not connected to a KAAPA entity at a price not less than US\$2.95 per share.

The shares in (b)(i) to (iv) above will be issued in two tranches at the issue prices detailed later in this memorandum. Each applicant for these shares under (b)(i), (iii) and (iv) (excluding the 300,000 shares to be placed) will have an obligation to take up both issues of shares if Phase 2 of the proposal proceeds with a production plant being constructed. Attached as Appendix I are details of the proposed share issues based on the assumption that KAAPA LDL Development Equity Limited will transfer all of its preferred shares to the Company in exchange for shares in the Company.

If the above share issues proceed then KAAPA interests could hold a maximum of 1,787,496 of the voting shares in the Company.

- (c) Further resolutions will be proposed to permit two of the entities to whom it is proposed shares will be issued, namely KAAPA BioProducts 2013 LLC and KAAPA BioProducts 2014 LLC, to each appoint one director of the Company and to appoint and remove that director with that right to continue while those entities continue to hold at least 500,000 shares in the Company. If the KAAPA shareholding is 1,000,000 or more shares the KAAPA interests will have the right to appoint two directors in total.

## **Takeovers Code**

Under the provisions of the Takeovers Code the above proposed share issues and resolutions cannot be considered unless a significant amount of information and accompanying explanations are provided to the shareholders of the Company. In addition an independent report is required and this has been sought from PricewaterhouseCoopers and is attached to this memorandum. Details of how the Code operates, and the impact of the above resolutions on the operations of the Code, are set out in this explanatory memorandum.

## **Reasons for the proposed transactions and share issues**

The Company is based in Ashburton and, for the last 10 years, has been focussed on research and development that has resulted in the development of a highly engineered bio-filler for the plastics industry. This business started as an experimental project to determine if cellulose based plant material could be converted into a highly engineered bio- filler which could be added to resins to create a new bio composite based product. The philosophy behind the proposal was that resins are a by-product of the petroleum industry and if a renewable resource (such as wood) could be converted into a product that was compatible with resins and could be used to extend and fill resin compounded products (and so reduce the cost and percentage of resins used in any product) then this would be good for the environment, be attractive to environmentally sensitive manufacturers of plastic products, and provide a bio-filler that was both of a lighter weight than resin and also had elements of bio degradability.

The Company has been working with ethanol producers in the USA to use the by-product of the ethanol industry, being the distiller's grain that remains after the extraction of ethanol, to determine if that ligno-cellulosic by-product can be converted into an engineered bio- filler utilising the company's process and IP. After significant development and use of the dried distiller grains (DDGs) in developing a stable acceptable product, the Company is confident that it has developed an engineered bio-filler that will have significant attractions for use in the plastics industry. The Company has two approved patents and several provisional patents, as well as a number of trade secrets and developed know how surrounding the technology and process for converting DDGs into a compatible engineered bio-filler. The Company has also used other

ligno-cellulosic materials such as sugar beet pulp, soluble corn hulls and soyflake feedstocks and has converted these into a bio-filler through a chemical, mechanical and technical process so that the intellectual property can be applied not only to DDGs but other cellulosic plant materials.

## **Pre Production Plant**

Up until December 2012 the Company had an experimental pilot plant based in Ashburton which was used to produce samples of the filler so that those samples could be used in the promotion of the material to potential manufacturers in the USA. Unfortunately just prior to Christmas in 2012 that plant was destroyed by fire and the Company has been unable since that time to produce further samples of the filler. The existing stocks on hand at the time of the fire were available for market development but were contaminated in a testing process by a customer. Arising from the fire in Ashburton the Board determined to accelerate its strategy which was to further develop the potential demand for the bio based filler by constructing a new plant in the USA which would have the capacity to provide commercial volumes of the product so that potential customers in the USA could utilise that product as well as to provide samples of the product to further develop global markets.

The initial proposal by the Company that was approved by shareholders in April 2014 was to construct a production facility in the USA that would enable both samples for testing and commercial volumes of the Xylemer product to be produced at a total cost between US\$10 million to US\$12 million. This proposal did not proceed for the reasons set out on page 1 in this memorandum.

After discussions in the USA it has been decided to reduce the risks associated with the steps to commercial production by:

- (a) Initially constructing a new pilot plant at an approximate cost of US\$2.4 million that will allow the Xylemer product to be produced in batches for testing by customers (Phase 1).
- (b) Once customers have provided a high level of confidence to the Company that they will place commercial orders for the Xylemer product the Company will then expand and upgrade the pilot plant at a cost of approximately US\$4.8 million to enable up to 4 million lbs per annum of the Xylemer product to be produced (Phase 2).

Because of the two stage process it is intended that the Company obtain commitments for the funding required to enable each Phase and that share subscription moneys will be called up in two stages as and when each Stage proceeds except the issue of 300,000 ordinary shares. These shares may be issued to cover any shortfall in unforeseen contingencies and working capital.

Arising from these discussions with KAAPA three subscription agreements have been entered into with KAAPA Entities (as defined on page 8) for the raising of capital.

The Board carefully considered the utility of raising capital in the USA rather than in New Zealand, and thus bringing on board a USA based investor who could materially assist the Company in meeting its objectives. The Company believes that by introducing USA based shareholders the Company is positioning itself in a manner that will enable it access to the USA market with a perception that there is a strongly based US investor supporting and participating in these endeavours.

In addition a group of other investors, lead by a New Zealander, based in New York who has strong alignment with capital raising in the USA, have shown a strong interest in becoming shareholders in the Company. Therefore included in the resolutions are proposals to issue to other entities not associated with KAAPA up to 712,865 ordinary shares plus 21,386 shares for conversion of the 3% placement fees into these shares. In addition those entities shall be entitled to 3% of the amount of Preferred Stock which effectively will be converted into shares in Lignotech by KAAPA LDL Development Equity LLC (see below)

### **Conversion of Preferred Stock**

A preferred stock subscription agreement was entered into between Xylemer BioProducts Inc, the Company and KAAPA-LDL Developments Equity, LLC (*KDE*) on 28 January 2014. That agreement did not require shareholder or other approvals as it was permitted under the constitution of the Company.

In late 2013 a property was identified in Kearney which could be suitable for the Company's requirements. Because the Company did not have the necessary funding to purchase that property the following occurred:

- A USA 100% held subsidiary of the Company was established called Xylemer BioProducts, Inc (*Xylemer*).
- Xylemer raised US\$1 million by an issue of 227,273 shares of preferred stock to KAAPA-LDL Developments Equity LLC (*KDE*).
- Under the preferred stock subscription agreement entered into between Xylemer and KDE there are provisions under which KDE can convert the preferred stock held in Xylemer to ordinary shares in the Company.
- This arrangement has been restructured to enable KDE to convert US\$450,000 of the preferred stock into 152,542 ordinary shares in the Company at US\$2.95 each.

The balance of US\$550,000 can be converted into 131,579 shares in the Company at US\$4.18 each or the Company can transfer to KDE the property in satisfaction of that amount.

The conversion of the preferred stock into shares in the Company may be implemented by the Company acquiring from KDE the preferred stock in consideration of the issue of up to 284,121 shares set out above.

The number of shares to be issued to KDE will depend on whether the building in Kearney is acquired by KDE to satisfy US\$550,000 of the amount payable or the full amount is converted. KDE could be issued a maximum of 284,121 ordinary shares in the Company.

### **Proposed Issue of Shares – KAAPA Entities**

Three subscription agreements have been entered into with USA based entities whom are KAAPA associated entities and who could hold more than 20% of the voting shares on issue. The placement of the shares has been arranged through Kearney Area Ag Producers Alliance a Cooperative Corporation (*KAAPA Corporation*) which is an existing holder of 217,400 shares in the Company. The fee arrangement is for KI to receive 3% of the amount subscribed for by the Subscriber set out below and then to invest those moneys into shares in the Company, plus a further fee being 3% of the amount of Preferred Stock converted into shares in Lignotech by KAAPA LDL Development Equity LLC. If all the shares are subscribed for the fee will be:

- (a) For Tranche 1 \$59,814.20 to be used to subscribe for 20,276 shares in the Company for US\$2.95 each.
- (b) For Tranche 2 \$106,401 to be used to subscribe for 25,455 shares in the Company at US\$4.18 each.

It is proposed pursuant to the terms of those subscription agreements that the shareholders be asked to consider resolutions under which the Company can issue to those three entities, KDE and KI the shares set out below:

	<b>Subscriber</b>	<b>Tranche 1</b>	<b>Tranche 2</b>	<b>Total Investment</b>
1	Any of: <ul style="list-style-type: none"> <li>KAAPA BioProducts 2013 LLC</li> <li>KAAPA BioProducts 2014 LLC</li> <li>Central NE Xylemer 2014 LLC</li> </ul>	<ul style="list-style-type: none"> <li>523,317 shares</li> <li>US\$2.95</li> <li>US\$1,543,786</li> <li>NZ\$1,882,665</li> </ul>	<ul style="list-style-type: none"> <li>716,927 shares</li> <li>US\$4.18</li> <li>US\$2,996,755</li> <li>NZ\$3,654,579</li> </ul>	US\$4,540,541 NZ\$5,537,244
2	KAAPA Corporation	<ul style="list-style-type: none"> <li>20,276 shares</li> <li>US\$2.95</li> <li>US\$59,814.20</li> <li>NZ\$72,944.15</li> </ul>	<ul style="list-style-type: none"> <li>25,455 shares</li> <li>US\$4.18</li> <li>US\$106,401.90</li> <li>NZ\$129,758.41</li> </ul>	US\$166,216.10 NZ\$202,702.56
3	KAAPA LDL Development Equity LLC	<ul style="list-style-type: none"> <li>152,542 shares</li> <li>US\$2.95</li> <li>US\$449,999</li> <li>NZ\$548,779</li> </ul>	<ul style="list-style-type: none"> <li>131,579</li> <li>US\$4.18</li> <li>US\$550,000</li> <li>NZ\$670,732</li> </ul>	US\$999,999 NZ\$1,219,511

In addition up to a further 1,034,251 shares may be issued to entities not connected with KAAPA. Details of these issues are numbered 6 and 7 in Appendix I.

A Terms Sheet has been agreed and arranged with each of the KAAPA Entities setting out the key terms. Arising from this Terms Sheet subscription agreements have also been prepared to be signed by each of the above entities. All shareholders have the right to receive a copy of those agreements if they wish to do so. These are available on request to the Company by emailing [garry@lignotech.co.nz](mailto:garry@lignotech.co.nz). Under the terms of issue the KAAPA Entities have the right to appoint directors of the Company. The essence of the arrangements are set out above, together with the following further terms and conditions:

- (a) The issue of shares to the KAAPA Entities is subject to those companies having the right to appoint one director to the Board of Lignotech while they continue to hold at least 500,000 ordinary shares on issue in the Company and two directors if the KAAPA Entities hold more than 1,000,000 of the ordinary shares on issue.
- (b) That to draw down the Tranche 2 share applications the Company must satisfy those subscribers that the Company can fund the project on the terms and conditions set out above and have strong potential commercial orders for the product.

## Further Share Offers

In addition to the above a subscription agreement has been entered into with a group of investors under which further shares will be issued as set out below:

- (a) Under the Tranche 1 offer 300,791 ordinary shares at US\$2.95;
- (b) Under the Tranche 2 offer 412,074 ordinary shares at US\$4.18.
- (c) Up to 21,386 shares for placement fees.

The Company is also seeking the right to place with investors up to a further 300,000 ordinary shares at prices not less than US\$2.95 provided those shares are not offered to KAAPA Entities. These shares may be offered to cover shortfalls in applications or to meet cost overruns.

## Final Share Structure if all Shares Issued

If all of the shares set out above are applied for by the KAAPA related entities and by non related entities, and the 300,000 shares are issued in full, the share capital of Lignotech on completion of the above will be:

Existing Shares on Issue	4,205,699	
Existing Options on Issue	30,000	
		4,235,699
Shares issued to KAAPA funds	1,240,244	
Conversion of preferred shares held by a KAAPA Entity	284,121	
Shares issued to KAAPA as marketing fee	45,731	
Shares issued to other investors	712,865	
Shares issued to other investors as marketing fee	21,386	
		2,304,347
<b>Total new shares</b>		<b>6,540,046</b>
Total KAAPA shares including all KAAPA Funds		<b>1,787,496</b>

The KAAPA shares will be 27.32% of the total voting shares on issue (excluding the options).

## Background to Share Prices

The reasons why the Company considered that it was more appropriate to raise capital in the USA are set out earlier in this memorandum. The Company considered that having a major USA based investor as a shareholder of the Company and a USA based New Zealand investor would considerably enhance the ability of the Company to meet its business objectives. KAAPA Investments LLC was already a shareholder of the Company and when it put forward a plan which would enable the Company to

accelerate and enhance the development of an initial production facility in the USA, by being the party which raised capital for the Company, this was carefully considered by the Board which supported this move as being in the best interests of the Company and its shareholders.

The Board then considered the price at which shares should be issued in the USA and sought external commercial advice as to the possible price ranges at which shares could be issued. The inability to raise loan capital was taken into account in the new pricing for shares. After considering all of the information contained in projections, and analysing the assumptions on which those projections were based, and the probability of a successful launch of the product in the USA, it was determined that US\$2.95 was a fair price at which Tranche 1 shares should be offered for subscription for the initial capital raising to determine if by production of samples potential customers can be convinced that they should negotiate volume orders with the Company. The offer of Tranche 2 shares is at a materially higher price because by that time potential buyers of the Xylemer product will have indicated that they will place orders for that product. If Phase 2 proceeds a higher share price of US\$4.18 is justified as the risk has been reduced.

The Board of the Company has given its unanimous approval to the pricing as finally determined and set out above.

A further benefit for all shareholders is that the KAAPA and other interests wish to invest directly into the New Zealand company. They perceive that there is a significant benefit in investing in the New Zealand company because if the USA based plant is highly successful then the Company will be able to offer its know how and technology in other parts of the world. It is also of benefit to the New Zealand shareholders to have a direct involvement by the US investors in the New Zealand company because it provides the right tensions, checks and balances between the US based investors and the New Zealand investors in achieving the business strategies and objectives of the Company.

For the reasons set out above, and because of the benefits which the KAAPA companies can bring to this company, the Board considers that the price at which the shares are being offered to those entities is fair and reasonable to the Company and to all shareholders.

### **Takeovers Code Approval Order 2000 (the Code)**

The Company has 82 shareholders and therefore falls within the definition of being a Code Company under the Code. Accordingly the Company is required to meet all of the requirements of the Code and each shareholder of the Company must also comply with those provisions including the various thresholds that arise under the Code.

There are a number of fundamental rules under the Code and the proposed issue of shares to the three KAAPA subscribers for shares as set out in Resolution 2 fall within the requirements of Rule 6(1) of the Code which provides as follows:

*“6(1) Except as provided in rule 7, a person who holds or controls –*

*(a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and that person’s associates hold or control in total not more than 20% of the voting rights in the code company;”*

For the purpose of considering the issue of shares to the new shareholder entities related to KAAPA the Company has taken the view that all of those entities are associated and that for voting right purposes the shares are held or controlled by persons whom together with associates are likely to act together as the controllers of voting rights attached to the shares which those entities will hold if the shareholders of the Company approve the share issue to those entities. Whether or not shareholders are associated is set out in Rule 4 of the Code. If the shares were to be issued to those entities without obtaining shareholder approval pursuant to the ordinary resolution, this would be in breach of the fundamental Rules contained in the Code. The Code provides that the shares can be issued without breaching the fundamental rules of the Code, provided that the allotment of the shares has been approved by an ordinary resolution of the Code Company in accordance with the provisions of the Code and all of the information in Rules 16 – 19A of the Code has been provided to shareholders.

### **Voting on the Resolutions**

KAAPA Investments LLC which has been a holder of 217,400 shares (5.1% of the equity shares on issue) for some time has assisted the Company in negotiating the terms and conditions of the subscription agreements relating to the proposed issue of shares set out in Resolution 2. KAAPA Investments LLC has agreed that it would be inappropriate for it to vote in respect of the resolutions contained in this notice of meeting and therefore has provided an undertaking to the Company that it will not exercise its votes at the proposed shareholder meeting. However for the purposes of the Takeovers Code the Company has taken the view that the shares held by KAAPA Investments LLC are also within the same control as the entities to which shares may be issued and therefore the shares held by KAAPA Investments LLC are included in the calculations which are set out below. KDE is in a similar potential position but as it does not hold shares in the Company and will not have any right to vote.

### **Entities to be Issued Shares**

The entities which would be acquiring shares under the three further subscription agreements, and acquiring voting rights in respect of those shares, are as follows:

- (a) Any of KAAPA Bio-Products 2013, LLC, KAAPA Bio-Products 2014, LLC, Central NE Xylemer 2014, LLC, KAAPA Investments LLC, and Kearney Area Ag Producers Alliance a Cooperative Corporation (*KAAPA Corporation*) (*the KAAPA Entities*).
- (b) KAAPA Corporation up to 45,731 ordinary shares on conversion of the placement fees into shares.

If all of the shares are issued under both Tranche 1 and Tranche 2 subscription agreements, and KDE converts all of its preferred stock in Xylemer to shares in the Company, the number of shares on issue held by parties within the KAAPA Entities will be as set out in Appendix I and the total number of shares on issue in the Company will be 6,540,046. KAAPA Entities would then hold 27.32% of the total shares on issue. Numbers 2 and 3 in Appendix I are the issue of shares that are proposed to be voted on by shareholders, No. 1 is the existing number of shares held by KAAPA Investments, LLC and No.4 is the additional number of shares that have yet to be placed and issued by the Company.

As set out above KAAPA Corporation will receive as a placement fee moneys to enable it to apply for and receive 45,731 ordinary shares.



The same placement fee will be payable to the subscribers to the 712,865 shares to be subscribed for by other investors. The fee payable and shares to be issued by the Company to other investors will be:

- Tranche 1 9,024 ordinary shares (US\$26,620.80)
- Tranche 2 12,362 ordinary shares (US\$51,673.16)

**Shareholdings based on two assumptions:**

- That KDE holds 152,542 ordinary shares and 300,000 shares are placed (Section A)
- That KDE holds 284,121 ordinary shares and 300,000 shares are not placed (Section B).

In each assumption the 30,000 options are excluded.

<b>Name</b>	<b>SECTION A</b>		<b>SECTION B</b>	
	<b>Shares</b>	<b>%</b>	<b>Shares</b>	<b>%</b>
KAAPA Investments LLC	217,400		217,400	
KAAPA Corporation (Placement Shares)	45,731		45,731	
KAAPA Entities	1,240,244		1,240,244	
KAAPA LDL Development Equity LL	152,542		284,121	
<b>Total KAAPA Entities</b>	<b>1,655,917</b>	<b>24.79%</b>	<b>1,787,496</b>	<b>27.46%</b>
<b>Percentage if Options included</b>				<b>27.32%</b>
New shares to be issued:				
Placement Shares	300,000	4.49%	Nil	
Committed Investors	712,865	10.67%	712,865	10.95%
Shares issued for placement fee	21,386	0.32%	21,386	0.33%
Biotech Investment Group	493,760	7.39%	493,760	7.58%
Philip Quaid	475,028	7.11%	475,028	7.30%
Lignin Group Limited	298,931	4.48%	298,931	4.59%
NZ High Tech Enterprise	344,786	5.16%	344,786	5.30%
Balance	2,375,794	35.57%	2,375,794	36.49%
	<b>6,678,467</b>	<b>100%</b>	<b>6,510,046</b>	<b>100%</b>

**Consideration for the Shares**

Under the subscription agreements the price at which shares will be issued to the KAAPA Entities are as set out in Appendix I.

All of the prices are in US\$ and for the purposes of this explanatory memorandum a conversion rate of 82 cents to US\$1.00 has been used to convert these amounts in NZ\$.

## **Effect of Resolutions under the Code**

If the resolution to issue shares to the KAAPA Entities is passed by shareholders then, under the provisions of Rule 7(d) of the Code this will be an allotment of voting securities in the Company that is permitted in terms of the Code and will not be a breach of the fundamental rule under Rule 6 of the Code. However if any of those shareholders increased their percentage of voting shares in the Company this would be in breach of the Code and unless approved by an ordinary resolution of shareholders would require that acquirer of shares to comply in all respects with the terms and provisions of the Code and make an offer to the other shareholders of the Company.

## **Material Agreements**

The requirements of Rule 16 of the Code require a proposed allottee of shares to set out particulars of any agreement or arrangement that has been, or is intended to be, entered into between the allottee and any other person relating to the allotment, holding or control of the voting securities to be allotted or to the exercise of voting rights in the code company. Attached as Appendix 2 is a statement from the proposed allottee entities as required by Rule 16(g) of the Code.

## **Statement by Directors**

Rule 19 of the Code requires the directors of the Code Company to provide a written statement as to whether they recommend approval or disapproval of the proposed issue of shares and to give their reasons as to that recommendation.

The Directors of the Company unanimously recommend that shareholders support the resolution to issue the shares under Resolution 2, [and to permit the placement of further shares under Resolution 3] for the following reasons:

- The Company needs to raise the capital to enable it to construct Phases 1 and 2 of a new processing facility in the USA as without that facility the Company does not have the ability to provide product to potential users of the product in manufacturing processes. The proposed issue of shares will raise approximately US\$2.4 million under Phase 1 and US\$4.8 million under Phase 2 which will enable the implementation of the plant strategy to be completed.
- Because all of the expenditure on the new plant and facilities in the USA is in the interests of the Company for a substantial part of the capital to be raised in the USA, while at the same time introducing a shareholder into the Company who can provide support in the USA and connections into the ethanol industry, which is integral to the development of the business plans for the Company.
- The price at which the shares have been issued has been tested with the commercial advisers for the Company and both those commercial advisers and the Board consider the proposed issue price is fair and reasonable to the Company and to all shareholders.

## **Reason for appointing directors**

The Company has shifted its focus from New Zealand to the USA and the future development of its intellectual property is based on the new production facility to be based in Nebraska and the marketing of the Company's product in the USA. The introduction of a significant USA based investor group will provide the opportunity to have two directors based in the USA and appointed by two of the major shareholders within this investor group. Those directors will be able to provide invaluable governance skills in advising the Board on matters that relate to the USA market and how to introduce the product into that market.

With a material shareholding in the Company it is reasonable for those investors to request representation at Board level and with the ability to appoint two Directors, but having no right to vote on the appointment of the other directors. It is proposed that if the KAAPA interests hold 500,000 or more of the voting shares they can appoint one director and above 1,000,000 shares one additional director. Any notice of appointment or removal would need to be signed by all the KAAPA associated entities. Those appointments will not give control at Board level based on a minimum of 4 and a maximum of 6 Directors. The two appointments are approximate to the percentage of shares that will be held by the USA based investors and it is fair for those investors to be represented at Board level.

Dated this 14<sup>th</sup> day of November 2014

**APPENDIX I**

Subscriber		Tranche 1			Tranche 2			Total (US\$)	Total (NZ\$)	
		Number	Value (US\$)	Total value (US\$)	Number	Value (US\$)	Total value (US\$)			
1	KAAPA Investments, LLC	217,400	Already on issue							
	KAAPA Corporation fee earned	45,731	20,276	\$2.95	\$59,814	25,455	\$4.18	\$106,402	\$166,216	\$202,703
2	<ul style="list-style-type: none"> <li>• KAAPA Bio Products 2013 LLC</li> <li>• KAAPA Bio Products 2014</li> <li>• Central NE Xylemer 2014</li> </ul> Or other KAAPA Entities	1,240,244	523,317	\$2.95	\$1,543,786	716,927	\$4.18	\$2,996,755	\$4,540,541	\$5,537,244
3	KAAPA LDL Development Equity LLC	284,121	152,542	\$2.95	\$449,999	131,579	\$4.18	\$550,000	\$999,999	\$1,219,511
	<b>Total KAAPA related shares</b>	<b>1,787,496</b>								
4	Additional equity to be issued	300,000	300,000	\$2.95	\$885,000				\$885,000	\$1,079,268.29
5	Other Interests	712,865	300,791	\$2.95	\$887,333	412,074	\$4.18	\$1,722,469	\$2,609,803	\$3,182,686
	Other Interests fee earned	21,386	9,024	\$2.95	\$26,621	12,362	\$4.18	\$51,673	\$78,294	\$95,480
	<b>Total</b>	<b>2,821,747</b>	1,305,950		\$3,852,553	1,298,397		\$5,427,299	\$9,279,852	\$11,316,893

## APPENDIX II

### LIGNOTECH DEVELOPMENTS LIMITED (*the Company*)

#### STATEMENT BY THE COMPANIES AND ENTITIES NOTED BELOW TO WHICH SHARES IN THE COMPANY WILL BE ISSUED IF THE SHAREHOLDERS PASS THE RESOLUTIONS SET OUT IN THE PROPOSED NOTICE OF MEETING

This statement is given as required by Rule 16(g) of the Takeovers Code Approval Order 2000, a copy of which provision has been provided to each of the entities giving this statement.

#### STATEMENT:

We, the entities set out in the Schedule to this statement, state that if the shareholders of the Company approve the issue of shares as set out in the proposed resolutions then in relation to the holding of those shares in the Company by our entities that the following circumstances will exist in respect of voting rights for those shares.

The association between the entities set out below is not contained in any agreements or written arrangements. Each of the entities is independent of the other. The association may arise due to the following circumstances:

- Each entity operates under the same management arrangements with one person acting as an executive director of all of the entities.
- There is some overlap within the boards of directors of the entities.
- The boards and the shareholders of the entities may meet from time to time and may discuss business issues at an informal level.
- The entities could be placed in a position where if a material matter arose relating to Lignotech Developments Limited they may wish to discuss this matter.
- Kearney Area Ag Producers Alliance Cooperative Corporation (KAAPA Cooperative) carries out management services for each of the entities set out in the schedule. As part of those management services arrangements could be entered into as to how voting rights in respect of shares in Lignotech Developments Limited may be exercised or advice may be provided by KAAPA Cooperative on matters relating to the exercise of such voting rights by each of the entities set out below.

#### SCHEDULE ENTITIES

- KAAPA Investments, LLC
- KAAPA BioProducts 2013, LLC
- KAAPA BioProducts 2014, LLC
- Central NE Xylemer 2014, LLC
- KAAPA LDL Development Equity, LLC
- Kearney Area Ag Producers Alliance a Cooperative Corporation

Dated this 12<sup>th</sup> day of November 2014

**KAAPA INVESTMENTS, LLC**

By: Wayne Anderberg  
Name: Wayne Anderberg  
Manager

**KAAPA BIOPRODUCTS 2014, LLC**

By: Regan Jennings  
Regan Jennings, Managing Director

**KAAPA BIOPRODUCTS 2013, LLC**

By: Regan Jennings  
Regan Jennings, Managing Director

**CENTRAL NEBRASKA XYLEMER BIOPRODUCTS 2014, LLC**

By: Regan Jennings  
Regan Jennings, Managing Director

**KAAPA LDL DEVELOPMENT EQUITY, LLC**

By: Regan Jennings  
Regan Jennings, Managing Director

**KEARNEY AREA AG PRODUCERS ALLIANCE A COOPERATIVE CORPORATION**

By: Regan Jennings  
Regan Jennings, Executive Director