

Forestlands companies

Director's statement

In a liquidation we ask the company's director(s) to provide a statement outlining the causes of the company's failure.

Mr Kearns has provided the attached statement, which we are publishing in full.

The comments in the director's statement are his own. The comments are not endorsed by the Liquidators.



Neale Jackson
Liquidator





FORESTLANDS



Executive Summary:

I attempted a solvent liquidation of the Forestlands companies which was accepted by Kordametha who have taken the appointment. The FMA wanted the appointment to be “Court appointed”, seemingly to appease the negative press which they had created around the Forestlands Group.

The Forests were however sold because the business was no longer viable because of compliance costs resulting from the changes in H&S regulations and Financial services regulations.

The B class shareholders were not advised because I was concerned that if the market found out that the business was no longer viable (through liquidity issues), there was a real risk that market value would not be obtained, which ultimately it was.

Key Points:

1 The Forestlands forests were sold because the companies were facing serious liquidity issues.

Forestlands, it's Auditors and Accountants had identified the business was no longer viable.

2 To continue with the business of offering and managing retail Forestry Investment opportunities Forestlands management would have had to ask all shareholders for substantial ongoing financial inputs and would have needed to increase the annual service fees considerably.

3 The Director was not prepared to do this, simply to have those funds eroded once again by more and more demanding compliance costs. Accounting, Auditing, Insurance, Legal, Rates and more... None of these things increased or added value to a shareholder's Forest investment.

They were consuming it.

4 The Director has been attacked for not informing the B class shareholders that he was considering selling the Forests early. The Reason for not informing shareholders was as follows:

- (i) To inform shareholders that the forest assets were being considered for sale, would have meant informing all non-voting B class shareholders that the Forestlands companies were facing serious liquidity issues. That in it-self was not a problem, until the market or any potential buyer found this out.
- (ii) It is the Directors belief to this day, that if the liquidity Cash flow issues had become common knowledge in the market place, this would have resulted in Forestlands being forced to sell their forest assets for far less than the true market value that was achieved.

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- (iii) The Forests were sold from a position of strength. A position that could not have been held for much longer.

5 Internal values had been established for each forest prior to sale that were believed to be true and correct reflecting fair market values. Those valuations had all investors receiving their investment capital back, tax paid. The decision to sell the Forests at that time was based on that understanding that it was still possible to achieve, and return an investors capital, at that stage.

However due the FMA investigation, valuations had to then be acquired by third parties to establish independence, resulting in values for each forest that were different and out of Forestlands control. In fact, the entire process has been out of Forestlands (and the Directors) control since the investigation commenced some 22 months ago.

6 The media reporting of this matter has been poor to say the least, one sided, and ill-informed. They would have you believe the Director had taken proceeds from the sale and disappeared abroad. We can assure you that was not, or ever the case. One article had him buying Chalets in France... Absolute rubbish.

The discrepancy from the gross sale proceeds, to the nett proceeds in the bank was made up from repayment of operating bank loans, a loan to Forestlands NZ LTD, and payment of the Forestlands marketing royalties for the Forests as contained within the prospectuses.

All these matters are documented within the Companies annual financial accounts and have always been fully disclosed.

7 If the Forests were not sold, all investors would have had a call made on them for further capital input, obviously adding increased cost to their base investment. Forestlands financial forecasts, as prepared by our Accountants high-lighted there would have been very little gain if any, as a result. It was very likely shareholders would have received less in the future due to the debt required for the business to continue for the time required to grow out the remaining forests.

8 The decision to sell the assets while there was still equity in those forests for Shareholders, was a good decision, made for the right reason, at the right time and executed for the right price.

A decision that the Director would make again if faced with those same circumstances. It was a decision that was not taken lightly and involved consultation with the Forestlands auditors who fully appreciated the need for such a decision to be made and actioned.

9 To continue the business for a further 20 years and grow out the youngest forests to maturity, would have taken far more investment capital than it was worth. Remember most of the capital was being used to remain compliant and satisfy the regulators, not grow, establish or improve your forest investment.

10 The Director has been attacked, threatened, and bullied and has suffered immense loss due to the investigation and resulting media coverage. However, he confirms he would make the same decision today for the benefit of all shareholders if faced with those same circumstances.

11 There has been immense pressure and criticism placed on the Director and Forestlands for not providing normal business services and statutory updates throughout this entire process, even though all the companies had had their funds placed in trust as instructed by the FMA. How could Forestlands be expected to run an office, employ staff and operate normal business activities under those circumstances – simply put, they couldn't.

Forestlands was commercially hamstrung by the process itself.

12 Forestlands lack of ability to service shareholders or carry out normal business activities was not of Forestlands making. Forestlands had always prided itself on its open communication policy with all shareholders. But you can't run a business when you have had your funds removed and held in Trust at the request of the FMA. Forestlands was placed in an impossible position, which only resulted in the situation becoming far worse than it needed to be.

13 Forestlands as part of its managed exit strategy, was already underway and preparing to pay out all shareholders in March April of 2017 then continue with new business ventures and growing new forests via a different format. However, that was all halted due to a shareholder's complaint, and hence the FMA investigation that followed.

14 The cost of that single complaint to the FMA has resulted in losses for all. Some more than others, but mostly the Director himself who ironically was trying to save all shareholders funds by selling the Forests why there was still equity in those assets to return to investors.

To date the Director has had to pay for all matters to be addressed, and the work to be done (at considerable personal cost) so this matter could proceed to this point, so shareholders can get paid out. It was never Forestlands desire nor that of the Director to have this matter drawn out or turned into the media circus that you have all had to endure – unfortunately that is the process, costly, demanding and extremely damaging.

Forestlands and its Director have worked tirelessly behind the scenes with a team of excellent people getting your investment to a point where it can be preserved, and to a point where you can get paid.

It is fair to say, this process of getting to this point has been extremely difficult for all concerned.

We Trust the above provides some insights into what has gone on here. Information the media hasn't bothered to inform you of, information Forestlands or it's Director haven't been able to comment on while the investigation has been going on.

In the Director's opinion, this process has been a disgrace, disrespectful, and extremely damaging to all. It needn't have been this way.

Finally, we thank those of you who have been so supportive throughout the past 22 months.

Thank you.

Regards



RC Kearns – Retired Managing Director Forestlands Management

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