



Fourth letter to shareholders

Dear shareholder

Our first finance plan already showed that the cash resources for maintenance and management would be exhausted at the beginning of 2010 and that we would have to find additional funds for the years 2010 to 2014. We had envisaged mortgages, bank loans and sale of land not suitable for teak production. The prospects were positive, but in the meantime the real-estate crisis in the USA and the ensuing financial crisis have upset our plans. It will be difficult to sell land for an interesting price or find a bank loan at acceptable conditions for the coming two years. We are therefore forced to find new capital by other means.

We are very conscious of the fact that during the rescue action we promised that no shareholder would **need** to inject fresh capital and we are doing our best to keep our promise. But the world-wide credit and financial crisis has an impact on our Company, too.

1. Let us start with the good news: we have a good product

Interest in timber investment and reforestation projects is rising sharply. Following the turbulences in the real-estate and finance markets, many investors are looking for real and tangible investment opportunities. Based on the criterion of sustainability, renewable commodities are at the top of the list. Hardwood is special: it grows according to biological rules and it is practically independent of developments on the equity and commodity markets.

- ✓ The plantations are fulfilling our expectations. We are very satisfied with Cañazas, Agua Fría, and Boca Chica. Tortí is acceptable. Torio, Zapotal, San Juan, and San Lorenzo are not suitable for hardwood plantations and we ceased intensive maintenance a year ago. Last year we experimented with fertilising and technical measures. This spring we will take further 200+ hectares out of the maintenance plan. The final harvest of what is left will achieve good prices on the market.
- ✓ All of the land is entered in the public register in the name of Forests for Friends Panama Inc. We have three litigation cases, where some of our land is under dispute.
- ✓ Our cost structure is very lean. Management and administration are reduced to the minimum. We cannot and will not skimp on the maintenance - the consequences on the quality of the harvested wood and therefore on the price would be too high.
- ✓ The changed Bye-Laws, which were necessary due to the Swiss money-laundering law, have been implemented. Some of the shareholders have deposited their shares in their bank's safekeeping account, most of them preferred to have a share certificate.
- ✓ During the first week of February, 11 people participated in our second shareholders' trip to Panama. The week was successful and the participants learned a lot about Panama and the plantations.

2. What have we done up to now to find money?

2.1. Income from the sale of wood not before 2015

The trees are the fortune of our Company and they are growing well. The exact figures will be sent to you in the Annual Report. However, our capital is invested in these assets; our cash funds are limited. Unfortunately, we cannot pay our bills with trees - we need cash.

We showed you at the AGMs 2007 and 2008 that we expected a liquidity problem for the years 2010 to 2014. At the time we expected a gap of around 5 million Swiss Francs (4.2 million US dollars). We have now been able to reduce this requirement despite currency-exchange fluctuation to a minimum of 3.5 million US dollars (cf. table in section 2.3 below) thanks to income from interest and due to our very modest administration.

The need for funds is due to the fact that our Company has practically no cash income. Revenue from the trade of CO₂-certificates has not yet been realised and we cannot expect considerable income from timber sales before the 10-year thinnings. We have practically abandoned the trees planted in 2003 and 2004 so that income and outgo will only be balanced after 2015. In 2019 and the following years, we expect surplus revenue. But nature dictates that about 85% of the income is due at the final harvest of the trees.

2.2. What are we doing to reduce our expenses and find cash?

By optimising the future interest burden and selling some land we hope to be able to save and earn, respectively, at least 1.5 million US dollars in the coming years. However, the point in time of the sale is unfortunately not easy to foresee.

- ✓ Up until the world-wide credit and finance crisis we were able to achieve up to 4.5% interest on our funds from gilt-edged investments. Today we consider ourselves lucky if we are able to get an interest rate of 0.125%.
- ✓ Last summer, we had positive feedback from the banks regarding credit lines and mortgages. Now, however, the banks are very reticent with any kind of credit. Mortgages on plantations are very difficult to come by; unsecured credit costs horrific interest rates, in Europe as in Panama.
- ✓ We are still optimistic that we will be able to sell large parts of the land that is unsuitable for teak. We have prospective buyers willing to spend millions of dollars, but many projects of international consortia have been postponed indefinitely due to the burst mortgage bubble in the United States. Too many individuals have lost too much money.
- ✓ There is also the possibility of selling land unsuitable for teak for agricultural purposes at a lower price. We have prospective buyers and are in negotiation.

2.3. We need enough cash

According to current calculations, we have enough money **until February 2010**. Until then we must find cash or else we cannot guarantee the continued existence of our Company. This would mean that we would have to dissolve the Company. The land and the plantations would have to be sold to the highest bidder and the remaining money would be distributed among the shareholders. This would not be very much, if we had to sell under time pressure.

On the other hand, borrowing would not have any negative influence on the yield of the investment, as the capital costs are already factored into the finance plan. But we would prefer to pay you, the investor, the interest and not the banks.

In concrete figures we need	minimum	maximum
2010	870,000 \$	1,110,000 \$
2011	990,000 \$	1,080,000 \$
2012	780,000 \$	1,050,000 \$
2013	630,000 \$	1,000,000 \$
2014	250,000 \$	1,080,000 \$
Total of all years	3,520,000 \$	5,320,000 \$

3. Forests for Friends needs your help

3.1. Possible solutions

As shown above, there is still the possibility to sell land, but we must prepare further options. We see two basic possibilities: debt capital and – if necessary – the sale of parts of the plantations. We see the following options which we should like to combine:

- Raising loans, for example from larger shareholders. We would offer an interest of approx. 4 to 6 % per annum. The size and the duration of the loan can be agreed individually.
- Raising debt capital by way of a loan that can be converted ("convertible bond") with an interest rate of probably 4 % per annum. Such a loan gives the lender the right during a determined period to choose to accept shares of Forests for Friends Ltd at terms stipulated in advance instead of receiving the payback of the loan. To be able to offer the lenders this right to take new shares, this AGM will have to agree to an article in the Bye-Laws regarding a conditional capital increase according to Art. 653 of the Swiss Code of Obligations.
- If we are unable to raise enough loan capital, we will have to consider selling parts of the plantations. The Tree Partner Company Ltd, who - via its daughter company, The Tree Partner Company Panama Inc - owns plantations near ours in Darién, is willing to help us. This would mean that you as shareholders of Forests for Friends Ltd would subscribe to shares of The Tree Partner Company Ltd and this company would pledge itself to stand by with this new capital to buy parts of the plantations of Forests for Friends Panama Inc. This solution would have the advantage that a fair sale at current market values would be possible. Needless to say, the price would be based on an independent assessment. For you as shareholder, it would also have the advantage that you would not have all your eggs in one basket.
- Sale of parts of the plantations to third parties. This is the last option for the Board and would only be taken to avert the dissolution of the Company. Under time pressure and in the current financial situation we believe that a fair-market price could not be achieved.

3.2. Our promise

In case the financial situation of our Company develops in a more positive manner than our cautious forecast indicates, the Board pledges itself to distribute the funds that are not necessary for maintenance and management to the shareholders. You will be able to decide on the form of this distribution at the AGMs.

4. Please send us an answer

We are enclosing a confidential response letter. Please inform us of your willingness (without obligation) to help the Company and also include any comments you might have until the **end of March 2009**.

Finally, we should like to emphasise again that our plantations are developing positively, but trees do not grow faster if one pulls them. We have indicated this liquidity gap for the past two years and now the time has come for us to act. Our cash situation is very strained, but with your assistance we will be able to avert the worst.

We appreciate your help.

Best regards



Carol Franklin Engler, Ph.D.
Chairman of the Board



Rudolf Engler
Delegate of the Board and CEO

Enclosures

Response letter (confidential)
Envelope