Transcript of the Responses to Substantial and Relevant Questions received from Shareholders for Avarga Limited's 54th Annual General Meeting held on 23 April 2021

Slide 1 - Start

Dear fellow shareholders, as always, I wish all of you good health and safety. Thank you for taking the time to join us via this webcast.

Slide 2 – Shareholder questions

Give the restrictions related to Covid-19, we have decided to maintain the process we adopted last year. We have compiled the questions that were submitted and will address them as best we can via this presentation. The paraphrased questions are the following:

- Following Taiga's special dividend this year, please comment on the company's gearing level, debt headroom, and ability to pursue growth opportunities.
- How does management provide effective leadership and guidance to Taiga given the border restrictions related to Covid-19?
- Please elaborate on the scope of Taiga's internal audit function. Did internal audit evaluate Exterior Wood during the acquisition in 2018?
- Is 3D building construction technology disruptive to the building construction industry, and what is the potential impact on Taiga?
- Please elaborate on the opportunities and threats to the Paper Manufacturing business in relation to China's import ban of solid waste material?
- Please provide an update on the IPO process of the Paper Manufacturing business.
- What measures and policies have been implemented to ensure the staff safety at our Power Plant in Myanmar?
- What is the level of communication between Avarga's management team and the operational team at the Power Plant?
- Has there been any material changes or events at the Power Plant, and have we continued to receive our payments?
- Do the Group's internal audit plans include the Paper Manufacturing and Power Plant operations in Malaysia and Myanmar respectively?
- Please elaborate on the Group's investment into Straits Inter Logistics Berhad and how it will contribute to Avarga.

If you have additional questions following this meeting, please email them to us and we will endeavour to respond. The webcast recording, transcript of the presentation, and an expanded slide deck will also be made available on our website.

Slide 3 – 2020 highlights

Despite the Covid-19 crisis, our Group produced record profitability in 2020. Compared to 2019, which included a one-off gain of $11 million from the sale of the Tuas property, revenue increased by 21% to $1.7 billion, EBITDA increased by 90% to $130 million, pre-tax profit increased by 92% to $102 million, and net profit increased 68% to $55 million.

Group net debt was reduced by 34% from $92 million to $60 million and our net gearing ratio likewise decreased from 36% to 20%, strengthening our balance sheet.

We took advantage of the increased market volatility in 2020, spending $11 million on Avarga and Taiga share buybacks and purchases. These exercises resulted in a reduction of almost 2% of Avarga's shares outstanding and a 2% increase of our Group's stake in Taiga.

Operationally, we successfully completed our first major overhaul exercise for our Power Plant in Myanmar in July 2020. We also acquired a 10% equity stake in Bursa-listed Straits Inter Logistics Berhad earlier this year.

As stated in our annual report, the primary driver of our performance was Taiga, as we reaped the rewards from the years of effort acquiring the company, expanding its network, and optimizing its capital structure and business operations. Given its tremendous results, Taiga was able to declare its first special dividend amounting to Canadian dollar $30 million.

Slide 4 - Taiga

Lumber prices continue to hover around historical highs as we speak, crossing US$1,300 on Monday before retreating slightly this week. For comparison's sake, lumber closed at end 2019 around US$400. Much of this has been driven by a strong US housing market and the demand shift from multi-family to single-family homes.

We were able to capitalize on this environment given Taiga's strong market positioning, balance sheet, and expansion in the US market. Pre-tax profit increased by almost threefold to C$95 million, led by our US operations, which has been an area of focus for us over the years. in 2012, US sales were C$64 million, C$137 million in 2017, C$254 million in 2019, and up to C$357 million last year. The last two years, of course, being partly due to the acquisition of Exterior Wood.

Excluding lease liabilities, which is a fancy accounting term for rental expenses, Taiga had total debt of C$29 million, including the subordinated notes of C$12.5 million, at end-2020. With equity of C$205 million, this represents an extremely conservative gearing ratio of 14.3%, especially for a wholesale trading business. Taiga's revolving credit facility of C$250 million only had C$9 million drawn at end-2020. Therefore, even with the special dividend of C$30 million, we are comfortable that the company's balance sheet is strong and flexible with regards to pursuing future opportunities.

Taiga has its own board and management team that manage day-to-day operations. Avarga representatives on Taiga's board communicate regularly with the management team, which has not been an issue given existing communications technology.

Taiga employs a full-time internal auditor with full access to senior management and its entire operations. The IA's scope is very wide –credit controls, inventory management, employee claims, site safety, et cetera. He reports directly to Taiga's Audit Committee. Due diligence for the acquisition of Exterior was conducted by external professionals, not the internal auditor.

With regards to technological disruption in the building industry, Taiga's role in the supply chain is being an efficient wholesale distributor. Management continually monitors changing industry trends and responds accordingly. If builders change their methods, the products change, hence translating to different orders to us, and we then source those products. On that note, we have also built an e-commerce platform called Taiga Digital to account for changing consumer behaviour as well.

Slide 5 – Taiga sustainability

So, what happens if lumber prices start to fall drastically back to its historical averages? It is certainly likely that Taiga's sales and profit decrease from its record highs. That said, the company's strength is its sustainability, and we would still expect it to churn out an appropriate return on our investment.

Taiga has weathered through volatilities in housing cycles and commodity prices over its 40-plus year history. This is primarily due to its diversification, as it has a wide product offering, caters to both new home and renovation activity, and is spread out across North America.

Furthermore, continued strength in the US housing market, particularly single-family homes, would drive earnings growth. Taiga has also had success in growing its margins organically by increasing the sales ratio of allied or manufacturing products to lumber or commodity products. Over the last decade, allied products as a percentage share of sales have increased from 30% to 50%. This is important because allied products have a higher gross margin than commodity products and reduces the dependence on lumber.

It is also unlikely for Taiga to recognize huge inventory losses on lumber if the price starts falling because it has very high inventory turns of 2 times per week. That risk is more relevant for the treated wood business, as Taiga accumulates lumber in the winter, treats it, then sells it in the spring. However, we are now past that stage.

Slide 6 – Paper Manufacturing

Pre-tax profit for our paper manufacturing business in Malaysia decreased by 37% to $5 million in 2020.

The Movement Control Order implemented by the government disrupted our operations, particularly the supply chain as there was limited collection of waste paper. The lack of supply led to higher costs which reduced our margins.

However, growing e-commerce adoption helped to support paper packaging demand and our sales volume only fell by 4.9% for the year despite the restrictions. Margins also began to normalize in 4Q 2020 as the supply-demand dynamics stabilized.

Many Chinese companies are restructuring their supply chains due to China's ban on the import of solid waste material. Malaysia has seen the entry of several major Chinese players, who are setting up large plants. However, most of these investments are large greenfield ventures that are wholly owned by them, rather than brownfield investments or joint ventures with locals.

Given the scale of their operations, they are likely to source waste paper internationally, manufacture in Malaysia, and export it back to their facilities in China for assembly. Therefore, there would be minimal impact on the domestic market.

We are always open to explore opportunities and have supplied intermediate products to Chinese companies in the past.

The IPO evaluation process is ongoing and there is no time frame for a final decision. The business undertakes periodic internal audit review exercises, where necessary.

Slide 7 – Power Generation

Pre-tax profit for our power generation business increased to $6.6 million, an increase of 10% from 2020.

Our first major overhaul of all 13 engines started in 2019 and was fully completed by July last year. Despite the exercise, our plant successfully produced 390 million kilowatt hours, up 5% from 2019 and 11% above our minimum off-take as stipulated in our power purchase agreement.

We are in constant contact with our office in Yangon, our O&M contractor, as well as other parties. Communication channels are open in Myanmar, and only mobile data WIFI has been curtailed.

The plant's operations have not been affected by the recent political events. The plant is in a secured area and we have enhanced security. We have mobilized operations and security personnel to stay onsite, to provide uninterrupted output and minimize transportation and mobility risks. We also have sufficient supply of raw materials and spare parts. So far, all payments due from EPGE have been paid on schedule.

We do not conduct internal audit review exercises for our power plant as the operations and maintenance are outsourced and governed by an O&M contract.

Slide 8 – Dividend policy

We have revised our dividend policy, as we endeavour to achieve a payout of 30% of net profit from the previously communicated 40%. The primary reasons are Taiga's growing contribution to our bottom line, its need to reinvest capital, and our Group's ability to continue growing our assets and cash flows.

I have articulated these considerations in detail in our annual report.

Slide 9 – Outlook

Following our record year, our balance sheet is in a strong position. Cash flow generation from our various business units remain resilient. These factors provide a buffer to navigate the continued uncertainty in 2021.

We are cautiously optimistic that the tailwinds behind our core businesses remain. For Taiga, it is the strong housing market and consumer shift towards single-family homes. For paper, the continued adoption of e-commerce. For power, the continued low electrification rate in Myanmar.

However, tailwinds are only beneficial if the businesses function properly. We must continue to develop efficiencies in our operations and create initiatives for organic growth. The introduction of Taiga Digital is one such initiative.

Beyond our existing businesses, management is constantly exploring our investment pipeline. We will continue to invest prudently to grow our return on equity. The volatile environment has created opportunities, but we will only execute when we feel there is a strong investment rationale and manageable risks.

For example, we saw value in our investment of Straits Inter Logistics Berhad as an underappreciated business that was acquired at book value. We expect its earnings to improve substantially as margins grow from rising revenues and economies of scale, and if the company's various value-creation plans come to fruition. Straits is a leading oil bunkering player in Malaysia and is benefitting from a recovery in trade and shipping activities, as well as increasing legislation in favour of large oil bunkering players. There are no plans at present for us to increase our stake or for us to be involved in the company.

Lastly, we will be opportunistic with our capital allocation. Our role as managers is to be responsible stewards. We must constantly weigh how we allocate to generate the optimal returns, whether it be dividends, buybacks, reinvestments, or M&A.

Slide 10 - End

I hope I have covered all your substantial and relevant questions and concerns. Please contact us if you wish to follow up, keeping in mind that we cannot divulge sensitive information. The transcript from this presentation and a more robust presentation deck will be uploaded onto our website shortly after this meeting as well for your review. Thank you again for your participation today and your continued support in us.